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Crisis calls for innovation not hibernation

A new study from Rainmaking Innovation shows this crisis is the time for innovation, not hibernation, but the survey found that 200% more businesses are currently cutting innovation spend.

New global research reveals that in March, before extensive COVID-19 restrictions, just 8% of businesses surveyed said that they would not be investing in innovation activity this year, with that rising to 25% during the current crisis – an increase of 213%.

Research by innovation firm Rainmaking shows that businesses predicted 2020 revenues have fallen by almost half in just a month as the implications of COVID-19 have become apparent.

Business leaders also confirmed the measures being taken to navigate the current crisis: reducing costs by improving efficiency (30%), cost-cutting measures including redundancy (29%), cancelling planned investments in growth projects (28%), accessing state COVID-19 bailout funds (21%) and reducing investment in innovation activities (15%).

The study, conducted among business leaders of large businesses and presented in a detailed whitepaper, revealed that over 90% of them will not invest more in innovation in order to kickstart growth in their businesses, despite nearly half of respondents (46%) confirming that investment in innovation had helped to spur growth over the last year.

In the UK, businesses stand in a particularly difficult situation where they now have to cope with the impact of the COVID-19 pandemic on top of the Brexit situation. There is currently a strong need for leaders to step up and show the way despite a lack of visibility and predictability.

This whitepaper explores how leaders can innovate their way out of a crisis:

Operate with multiple scenarios and accept the need to make decisions and set a direction, without all the data and insights they are used to.

Embrace the need to adjust along the way as the haze lifts and we get more clarity about the future.

Embrace the tools and mindset of a start-up and entrepreneur during this period. Naturally, they embrace change and transformation and thrive when there is high volatility (Sainsbury's vs JustEat – an acknowledgment that you are competing against other industries).

Use cross-sector collaboration as a force for good. Banish barriers between industries and change and adopt new technology to keep up with the acceleration of market forces.

Develop a culture which encompasses the values of entrepreneurship. This will allow you to identify new growth opportunities and turn the current turmoil from a challenge into an opportunity.

> *"The tide will go out and then we will see who's wearing trunks" – Stephen Rapoport, Serial Entrepreneur, Ex-Unilever VP Disruptive Innovation.*

Read also

An open letter to large organisations from the startup community

Experts widely cite innovation as a key driver for growth and this view is supported by data from the 2008 financial crash showing that businesses that invested in innovation during the uncertainty, grew on average 7%, versus those that didn't, with some suffering revenue losses of up to 15%*. Research by McKinsey shows that the winners from the last recession were those companies who stepped up their investment in innovation early during the crisis**.

With a global recession forecast, Rainmaking reveals that while financial control and cost-cutting are critical aspects in times of crisis, a company's performance during and post a crisis is, in fact, reliant on its ability to innovate.

> *"It is understandable that many leaders have focused on stabilising core operations, implementing cost savings and building resilience in their supply chains during the initial phases of the COVID-19 crisis. However, it is also evident that the winners in previous crises are those companies that started investing in new growth opportunities early on. No company can succeed in the long-run based on saving costs. Now is the time to identify new opportunities that did not exist before, to add value to their customers and change the way they work to support their people. Demands will have changed; new technologies will have been accelerated and often industry barriers will have become more blurred. For the complacent companies, this poses a threat to their long-term survival – this is no time to sit tight and hope for the best. Many of the world's best-performing companies were started during a*

> *crisis including Apple and Amazon. Now is the time for every CEO to make a choice to get ahead of the game and take some risks with the possible reward of being one of the winners post-crisis." – Carsten Koelbek, CEO of Rainmaking*

Not all businesses are standing still

The research among over 300 CEOs and company directors of large businesses shows there is some appetite for risk. While overall investment in innovation is down April vs March, a third of businesses still plan to spend at least £1M on innovation in 2020 despite the current crisis, with more than 1 in 10 large businesses still planning to invest £25M or more.

The UK is the least likely to be taking financial actions on the back of COVID-19 with 15% not taking any financial actions at all.

How do sectors compare?

The sectors least likely to invest in innovation during the COVID-19 crisis are: education and scientific research (45%), hospitality and tourism (38%), health and social care (33%), professional services (26%) and transport (25%).

Pre COVID-19 lockdown, over a quarter of manufacturing businesses questioned said they would be investing £25M or more in innovation in 2020, shrinking to just 8% when questioned last month. Financial services also shrunk from 25% to 13% when asked the same question.

Those not expecting to grow in 2020 increased across all sectors between March and April, with financial services increasing from just 8% to 26% and technology, media and telecommunications from 17% to 33%, and tourism and hospitality increased to 50% in April from 29% in March.

It's not a time to pay lip service to innovation

Even before COVID-19, getting innovation right was a challenge for businesses as the research shows. Nearly half of respondents found that there is too much lip service paid and not enough actual innovation done and over a third of respondents said the use of buzzwords means innovation is not taken seriously in their organisation.

Top 10 reasons why innovation fails:

- Red tape within the company (30%)
- Innovation is not embedded enough within the company culture (20%)
- Lack of collaboration (19%)
- Innovation is under-staffed (19%)
- Innovation is underfunded (19%)
- Innovation doesn’t have enough “buy-in” internally (18%)
- There is a talent/skills gap (14%)
- People don’t understand innovation within my company (13%)
- Progress in terms of innovation is not measured correctly (11%)
- My company’s governance team does not value innovation (7%)

> *“Despite almost 1 in 5 business leaders stating that innovation fails due to lack of funding, our research shows budgets have decreased even further post COVID-19. This seems to be a dangerous decision by those companies, and it raises the question: are these projects being set up to fail, without the level of investment and support they need? We need to ensure business leaders have the confidence to use innovation in the right way during and after this crisis.” – Carsten Koelbek, CEO of Rainmaking*

5 steps 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.

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.

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.

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.

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 are governed separately.

Notes:

**Success in this study was measured using total stock returns (TSR)*

***A study which analysed 1,000 publicly traded companies during the GFC, found that only 10% were successful during and after the recession (McKinsey & Company, 2019)*

The "Why Crises Call for Innovation, Not Hibernation" whitepaper is available to download here.

Rainmaking commissioned YouGov to poll 312 Director level and C-suite executives in the UK (104), US (106) and Denmark/Sweden (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).

Rainmaking is one of the world's leading corporate innovation and venture development firms with 12 offices located in global tech hubs including London, Copenhagen, Dubai, Singapore, New York, and Sydney.

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