



Role of innovation in sustainable growth

Olivier Tardy, Senior Partner, Managing Director, The Boston Consulting Group, France

Innovation is and remains a priority for most businesses. But innovation is changing, both in its goals and in the way it is undertaken. Sustainable growth is also becoming a key parameter, as a number of factors are coming into play.

At BCG, we consider innovation as a key source of competitive advantage for our clients.

We conduct an annual Innovation Survey, together with Business Week. The 2009 version has just been published: 64% of the 2,700 managers who responded said that innovation is still one of the top three priorities for their company. This number is amazingly stable, despite the crisis, as it compares to 66% in both 2007 and 2008... 58% of the respondents even said that they plan to increase innovation-related investments during the downturn.

However, respondents also said that the way their company innovates is changing. Innovation geared towards lowering production costs and bringing new revenue streams is becoming more important than ever... Maybe two different approaches to cope with stagnant top-lines.

The use of rapidly developing economies (RDEs) is also increasing. This serves two purposes:

First, it is a way to decrease innovation costs, thanks to less expensive labor but also thanks to "thrifty approaches" to innovation. A low cost car like the "Nano" by Tata would be difficult to design in the USA or Germany.

Second, innovation teams in RDEs are also likely to be more attuning to the needs of emerging consumers. It is clearly easier to take into account customer needs when living locally, and "customer centricity" is an essential component for successful innovation.

How about sustainable growth in all of this?

I do not have a full set of numbers on this, but I think it is safe to say that a number of factors are contributing to a stronger consideration of sustainability when innovating.

Among these factors, I would like to highlight four:

1. The increased awareness of the fact that resources in many key areas are not infinite:

We have come, beyond punctual crises such as the oil shock of the 70s - to the realization that the world we live in is not infinite. This is true for both natural resources used as inputs and natural resources used to absorb outputs such as pollution.

Illustrations of this point are plenty. My personal favorite is Helen Mc Arthur's account of her visit to Grytviken, South Georgia, 750 miles east south east of the Falklands, where an entire small city, complete with the tooling etc., still stands, fully abandoned, as a ghost town. Many hundreds of people used to live there. Everyone is gone today...

Their business was to hunt whales to extract oil. As the population of whales was depleted, the activity closed down. Whale oil had been used to light the streets of London and Paris in the latter part of the 18th century, among other things. Better substitutes were fortunately found...

The awareness that innovation implies thinking ahead, thinking about the longer term effects of such innovation, thinking at least about the shortages likely to affect most natural resources has become very clear.

2. Population and economic growth in RDEs are also creating much larger needs than anticipated:

The world population has grown from 1 billion in the beginning of the 19th century to 2 billions in the 1950s, 4 in 1975, 6 in 2000, and is now close to 6.7 billions.

We have spent a lot of time studying the new consumers living in India, China, Brazil and Africa for instance. People who live with a couple 100 dollars a month and can now start saving 5 or 10 dollars to buy important things: mobile phones, toiletries, etc.

This extremely fast growing market clearly adds pressure on the use of natural resources...

But these consumers are also interesting, because their needs are clearly not downgraded, cheap versions of the products sold in rich countries. Their needs are fairly specific, with core attributes being emphasized more clearly. This implies innovation that is relevant for these customers.

One of the well-known examples - apologies to my co-panelists from Samsung and LG who are also great innovators - is a Nordic mobile phone brand in India, with innovative handsets including multiple address books and client accounts, to recognize the shared use of a family mobile phone.

3. The financial crisis:

The financial crisis clearly changes customers' expectations and needs in developed countries. It brings us back to basics in many key categories, what we call "trading up and trading down". The appetite for "Gadget Innovation" is decreasing sharply.

Some companies are developing products with de-averaged product features, going back to the core notion of "value for money". Think about Dacia's Logan. This is a car that is having great success, not only with people who would not normally have the resources to afford a new car, but also with consumers that do not have an emotional relation to their vehicle and enjoy the "value for money" or "smart buy" aspect of this product. I could quote many other illustrations of this point in consumer goods.

4. Last but not least, consumers also have high expectations from companies and governments, with regards to sustainable growth:

Surveys indicate that consumers believe that companies and governments can be more effective than private individuals in acting on sustainable growth or "green"-related issues.

In recent research, we found that 73% of all consumers consider it important or very important that companies have a good environmental track record. The awareness may vary according to the country considered, but as a rule one can say that "green" consumption is steadily increasing; so is the consumer's willingness to pay a little premium for clean products – even in times of tighter budgets.

These insights, in turn, call for a growing stream of innovation in all types of products and processes – ranging from clean techs to biofuels to new depollution methods and hybrid cars.

We also see a convergence between the business and the political "customer", with high expectations for ad hoc government intervention.

Overall, this means that many opportunities exist to do an even better job in adapting to the changing context. Innovation is and remains a key priority for most businesses. It is changing, both in its goals and in the way it is undertaken, and sustainable growth is hopefully becoming a key parameter for innovation. There is a lot that businesses and governments can do to accelerate this useful transformation. Business and political "customers" are clearly expecting this...