

# Sharpen the instinct to innovate\*

## Using innovation as a tool to manage and thrive in the downturn

Technology companies are defined by a fast paced environment, innovative ideas and a rich research and development (R&D) culture. While the current economic downturn delivers new challenges every day that force companies to be reactive and adjust to a new reality, successful technology companies have always been flexible in adapting to the market and can position themselves to ride out the market downturn by maintaining an innovation focus.



The challenge of forecasting the long term return-on-investment (ROI) for typical R&D projects is problematic for companies when they are looking at keeping their organization afloat in the short term. As a result, R&D budgets and investments are often the first to be cut, reduced or eliminated. The technology companies that can remain innovative and focused on delivering products and services of value have historically survived and thrived previous economic downturns.

### So how do you innovate in a downturn?

Companies are reacting to the downturn by reducing R&D budgets and taking a more cautious approach to undertaking new projects. While taking a more risk averse approach sounds like the antithesis of true innovation, asking the following five questions will help identify not only areas in which to innovate (it may not necessarily be your product or service), but also how innovation can help you to execute your business strategy.

1. Are you feature focused or customer centric?
2. Are you creating new markets or addressing existing market needs?
3. Are you enhancing customer profitability or building market share?
4. Are you maximizing government incentives or absorbing the entire cost?
5. Are you implementing measurements and controls or crossing your fingers?

### 1. Are you feature focused or customer centric?

The most common approach to innovation for technology companies is product or service innovation. It's in their DNA. Technology companies exist because of innovative ideas that have been commercialized into tangible products. However, this can lead to products that are feature heavy, resulting in hard to use products which have a steep learning curve for users, ultimately decreasing the likelihood of long term adoption.

Before investing limited R&D funds in a complicated feature set, take a customer centric view of your product or service and assess how you can innovate to address a need, rather than a want. Getting to know your customers better is never a poor investment. Listening to your customers and getting insight from them also increases the size of your R&D team. Connecting with customer needs and wants not only builds better products and services, but better customer relationships.

## 2. Are you creating new markets or addressing market needs?

Solution selling has been a buzzword for sales teams for years and for good reason. Customers aren't looking to purchase a stand-alone product, but a solution, an ecosystem, a lifestyle, a problem solver. In this economic downturn, products and services that will save companies or consumers money are destined to be the ones to succeed. Those that solve problems companies don't know they have or need to address, face a tougher battle for mindshare and most importantly, wallet share. In fact, the first casualties of the dot com era were arguably those technology companies whose product or service was a solution to a problem that did not exist. So when things got tough, it was easy to do without.

When you already have a customer who understands the value of your product and has integrated it into their business or life, a more promising start to innovation is identifying new opportunities to expand your relationship or footprint with that client. In the current economic climate, technology buyers will choose products and services that address their current needs and the pains they face and will be less inclined to invest in new technology products or services just because it has a laundry list of new features. The temptation to create a new market is exciting and new, but is also a bigger risk and less likely to be sustainable during the downturn.

## 3. Are you implementing measurements and controls or crossing your fingers?

Managing in a Downturn = Risk Averse

Innovation/R&D = Risk Tolerant

Successful Innovation in a Downturn = Managed Risk

Being risk averse in the current economic climate is a smart strategy, but one that isn't generally associated with innovation. Innovation is typically seen as inherently risky, which is why there are more followers than innovators in every market. The tendency to be risk averse can actually foster a more effective innovation program, as it forces you to focus on

what you can control and measure. Be able to identify what successful innovation looks like. Know when to kill an idea and invest resources somewhere else. Introduce structure by identifying Key Performance Indicators (KPIs) and developing real-time dashboards and scorecards. A little bit of control and rigor can actually help foster creativity and ideas. By providing a framework to work within, the path to market and commercialization can be more focused.

## 4. Are you enhancing customer profitability or building market share?

As with anything, there is a great appeal for something new — a new prospect or client brings new opportunities, ideas and a fresh start. New business development remains as critical in an economic downturn as it does at any other time, however enhancing existing customer profitability, innovating in customer service and focusing on customer excellence is an important way for technology companies to grow and build existing relationships. It also has the boomerang effect of attracting new business. The cost of finding new customers is enormous compared to the investment in developing strong relationships and innovative service models with existing clients.

## 5. Are you maximizing government incentives or absorbing the entire cost?

The complexity of innovation projects means that they can grow in scope, breadth and depth and the costs can seem overwhelming to companies who are investing in R&D over the long term without solid assurances of a return. Canadian governments at both the federal and provincial levels have recognized that innovation is key to the growth of our industries and have several funding programs in place to support companies taking the leap in innovation. Some of these tax credits are refundable, meaning the product doesn't need to have generated profits yet to qualify. Instead of strictly reducing innovation or R&D budgets, it is even more critical that companies take advantage of these incentive programs that are available to help offset the cost or investment in research projects.

## Who to call

Howard Quon  
National Leader, Technology practice  
416 869 2396  
howard.quon@ca.pwc.com

Don Furney  
Associate Partner  
604 806 7045  
don.furney@ca.pwc.com

Peter Matutat  
National Leader, Emerging Company  
practice  
416 365 8174  
peter.c.matutat@ca.pwc.com

Michael Cogan  
Partner  
514 205 5048  
michael.a.cogan@ca.pwc.com

Vik Sachdev  
National Leader, Scientific Research  
& Development (SR&ED) practice  
905 949 7311  
vik.sachdev@ca.pwc.com

Paul Hendrikse  
Partner  
519 570 5736  
paul.hendrikse@ca.pwc.com

James Pettigrew  
Partner  
403 509 7578  
james.a.pettigrew@ca.pwc.com

Don Flinn  
Partner  
902 491 7428  
donald.m.flinn@ca.pwc.com