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Racing Under the Yellow Flag:

Using Tough Times to Innovate Innovation

By
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The corporate drill that accompanies recession is relentlessly familiar. Survival trumps growth as companies lift off the accelerator and stomp on the brakes. Nothing remains immune or essential. Travel, training and consultants are the first to go. Every cost decision in the company is jerked up at least one level where it's put under the microscope. Leaders slip into command and control mode while managers scramble to protect their turf. Forward outlooks are so grim that everyone spends far more time looking inside for opportunity, than out. **In most cases, fear drives people to contract, but not change.**

Contrast this to what happens when a serious crash disrupts an auto race. The yellow flag comes out requiring all drivers to hold their position. Immediately, pit bosses assess the severity of the situation as drivers close gaps while holding position. The immediate decision is whether the team should take a pit stop to refuel, change tires or make other adjustments. The yellow flag signals an opportunity for strategy change and maintenance at substantially lower cost. *For those who have fallen off the pace, the yellow flag represents a huge opportunity.* The current leader has the most to lose. Competitors can change the game, but they must act in the moment.

There's no question that contraction is a necessary component of any recession management strategy. The concern is that it can quickly become the *only* strategy. This is particularly true when applied to innovation. Why? New projects add cost, not revenue. When a company starts cutting costs, all projects become natural targets. Once the knife comes out, so do the defensive routines. Again, you know the drill.

This short paper applies racing's yellow flag thinking to your innovation strategy and outlines five strategies to improve what and how you innovate for virtually no additional cost.

1. Shuffle new product portfolio priorities to accelerate next generation improvements while deferring low-value derivatives
2. Re-fresh your customer value proposition with a focus on customer experience
3. Drive process innovation to reduce cost
4. Conduct an organization-wide "workout" to drive out waste and non-value added tasks
5. Go scouting and shopping for new ideas, technologies to leap frog competition

Shuffle new product portfolio priorities to accelerate next generation products while deferring low-value derivatives

Two factors dominate portfolio management in recession: coping with narrow buyer constraints and being prepared to accelerate when it's over.

Recession buyers are not attracted by small improvement increments. Forego small improvements and focus on the next generation product or at a minimum, combine several minor improvements into one significant step forward. The critical factors are introduction timing and incremental value. You want the next generation to enter the market just as the economy is improving. The value has to be significant; ideally superior to potential competitive offerings. Emerson Electric differentiates products that are new to Emerson versus new to the world to insure it doesn't confuse internal challenge for customer appeal. Focusing on the next generation works *if* the value gained is significant to customers and differentiated from competitors.

Recession buyers look for minimum viable solutions. The sweet spot for winning products, effective product marketing, service delivery shrinks to that which is *essential* and *cost effective*. Rather than investing in competitive one-upmanship, make sure you have a clean, basic solution or you're out of the game. If you have an existing product that could be transformed into a basic solution quickly, consider putting a crash program on the road map. Alternatively, if there already is a basic solution pending on the product road map, consider pulling it forward. The critical considerations in making this choice are 1) can you *confidently* execute either choice within the recession window, 2) are the returns worth the disruption to other priorities, and 3) are the consequences of deferring other programs worth the incremental revenue?

An analog is to accelerate transition to a new architecture platform. Under the yellow flag, no one can go faster than the pace car until the track is cleared. For the moment, time is cheap. Since new architectures take more time to execute this is a rare opportunity to use platform design to significantly increase functionality, improve cost and gain leverage by spawning multiple derivatives. If your current architecture is long in the tooth or you have not used product families to accelerate innovation, now is an excellent time to consider it.

Re-fresh your customer value proposition with a focus on customer experience

In a strange way, start-ups are blessed by having no customers. This forces them to engage customers on many levels that yields a rich understanding of customer experience requirements. Once a startup gets market traction, they leverage what they've learned in subsequent products. Over time, the richness of that customer understanding weathers and eventually, will not accurately reflect current customer experience requirements.

What makes this issue even more challenging is that gradually what was once an evidence-based understanding of customer needs silently morphs into firmly held beliefs, not easily subject to challenge. People begin to respond to new ideas with "we tried that," or "we know that doesn't work." The early days of intense customer listening are drowned out by the amount of time spent telling customers what you know. Only when a new competitor successfully enters the market do we realize how faded the original value proposition has become. Apple's iPhone grabbed smart phone market share leadership in the United States from Blackberry and Palm for exactly this reason. For years, Blackberry and Palm made only incremental changes versus Apple's much more modern and insightful value proposition.

Recession makes every sale more difficult. Our natural instinct is to drive harder for the few opportunities. Rather than simply increasing sales force aggressiveness, change the topic of conversation back to *increasing* the depth and engagement with top customers around their challenges. This is a probing discussion; not a sales call! Seek to understand how they're coping with the economic challenges as well as capturing their vision of the future when the cloud's lift. It's possible that you could also use this time to *co-create* new products/services for they may well have the time and incentive. Bottom-line: Your value proposition drives many decisions – use the yellow flag to re-test its relevance with new evidence.

Drive process innovation to reduce time and cost

Process innovation is a critical source of sustainable competitive advantage. Why? Unlike product or service innovation which can be easily copied, process innovation resists copying. Everyone in the auto industry marvels at the Toyota Production System but despite all the available documentation and research, no one does it as well as Toyota.

Core business processes such as product development, order fulfillment and go-to-market, develop sludge and constrictions with age. During boom times, repairing and re-engineering is deferred or ignored until critical. In the meantime, each constriction is a tax on innovation as people invest time coping with the increasingly numbing and complex routines of the business.

The cumulative sludge and constrictions are frequently well-hidden. Only those who face the issues on a daily basis know the issues and consequences. Even when we know the problems, we often defer fixing them because the short term disruption of the fix looms larger than the longer term benefit. Bottom-line: use the yellow flag opportunity to remove time and waste from critical business processes. Consider these alternatives.

1. Improve reliability/repeatability. A recent study found that best-in-class companies are 36 percent more likely to have a predictable, repeatable innovation process. Use employee task-forces to identify and fix the major sources of variability.
2. Reduce non-valued work. Map a recently completed program and analyze it for defects and non-valued added tasks. Use that as a basis to reduce tasks or outsource non-essential ones and overall, make your process more lean.
3. Pick a target issue. Focus on a specific problem such as the ability to undertake "new-new" innovation and re-design your process to significantly improve execution.

Mapping the current process is an essential first step as most operating processes aren't played out as they're presented out in manuals. If you're looking at a sales process, identify the critical touch points and compare them to your value proposition, customer expectations and the competition. Then methodically, redefine what should occur, detail the necessary support systems and drive implementation. Alternatively, look at internal processes for waste and overhead reduction. Map the key tasks and outputs. Then ask yourself how you could achieve *better* results with 50% less time and money.

The key to making this successful is to have the people who own the work do the mapping. With minimal facilitation, it's quite easy for a working group in one day to map, identify improvement targets, prioritize and make an implementation. When combined with a workout effort (see below), this can lead to quick reductions in time and cost.

Conduct an organization-wide "workout" to drive out waste and non-value added tasks

A CEO I know wants to use recession to drive out waste and redundant overhead. When I ask where the waste is, he exclaims "Everywhere!" yet the only evidence he has are anecdotal examples that beg for specifics. Since the firm is deep into traditional recession contraction, even if he knew what to attack, doing it from the top down would likely only drive morale lower. Years ago, GE faced a similar situation. Jack Welch had earned the nickname of "Neutron Jack" because he layed off many people but left the buildings standing. Rather than drive more cuts from the top, they developed the "workout" process which shifted overhead reduction responsibility to middle management. The workout approach provided a defined and teachable method that was quickly implemented and saved millions. More importantly, the changes were identified and driven by the responsible middle managers.

The workout methodology is simple to understand but requires leadership and discipline to execute. Teams are established and trained to identify opportunities in their areas of expertise and develop creative solutions. The time from start to recommendations is limited to 30-60 days. Recommendations are presented in public forums where executives make fast yes/no decisions to drive rapid implementation. There is a strong bias for "yes" decisions as the people doing the work have momentum and commitment to resolving the problems. The workout process can bring the organization back to an earlier time where speed, flexibility, innovation and communications flowed easily throughout the firm.

Go scout and shop: for companies, new ideas and technologies to leap frog competition

We live in an increasingly competent, global economy. Be it customers, competitors or even countries, there are many more competent people, better ideas and potential technologies outside your organization than in it. Taking advantage of this is no different than any other opportunity. Without goals, a strategy and some folks who own the initiative, the opportunity remains rhetoric rather than reality. Running under the yellow flag provides an opportunity to increase the accuracy and impact of your efforts.

What might this look like? Consider these suggestions as springboards to sharpen your own thinking:

1. Road Trip – send a mixed team of marketing and technology to visit your most advanced customers to learn how they use your products and services. What do they modify and why? What limitations keep them from going as far and as fast they'd like? Who do they turn to for help when they don't turn to you?
2. New technologies/companies – There are always new people and companies that are struggling to gain traction with new concepts. Use the yellow flag to conduct an assessment of those that normally live below the radar in your industry. Establish relationships at multiple levels with the most valuable while you have time.
3. License, partner and/or acquisition – Recessions are like big climbs in the Tour de France. By the end of the day's race, only the strong remain at the front. Use the yellow flag to identify laggards who won't win on their own but could help you do so. If you've got strength, recession is a good time to exert it.

4. Big thinkers – Who are the thinkers that shape your industry? Use this time to engage their insights into your business. Make each of your top executives spend a day with a leader in their area and report back.

Closing comment

Most readers wouldn't argue with the potential of these five strategies but my guess is only one in five will take any one of them seriously. Why? Like drivers who just watch the car in front of them, they mistakenly define survival based on retaining as much of today's business as possible. I don't mean customers but all the patterns and routines that are now challenged. Done right, these strategies will alter your business and position. That's the point! In auto racing, the yellow flag is an opportunity for everyone…but the leader.