Will This Recession Be Your "Silver Lining"?

By Gloria McDonough-Taub
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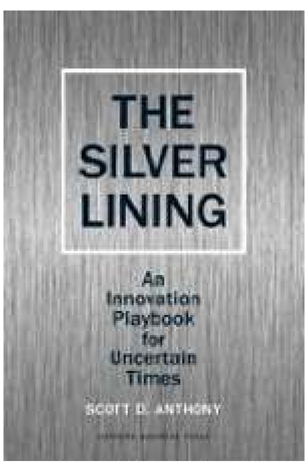
The recession has claimed many victims big and small - individuals and corporations....but one person is confident that these hard times are the best of times for innovators.

Scott Anthony, president of **Innosight**, the consulting firm founded to commercialize the disruptive innovation theories of **Harvard Business School's Clay Christensen** says his research shows that recessions actually give disruptive companies their ***best*** opportunities.

In his upcoming book, ***"The Silver Lining: An Innovation Playbook for Uncertain Times"*** Anthony takes a look at what he calls "disruptors to watch" - companies performing strongly during these tough times.

Below is a guest blog written by Anthony – who points out what companies are on the rise and poised for greatness – and which companies are vulnerable.



For better or worse, a new reality has sunk in.

The crisis we were dealing with last year has become a condition, one that might last for quite some time.

Yet, the economic downturn hasn't slowed the adoption of innovative solutions.

Amazon's Kindle e-book reader has burst in the mainstream. Consumers continue to flock to **Skype**'s simple telephony service, with the company's revenues approaching $500 million.

Emerging disruptors like K12 and EnerNOC quietly steam along.

And titans like **Procter & Gamble** continue to press down on the innovation peddle—in March P&G launched Align, a daily probiotic supplement that addresses symptoms of irritable bowel syndrome, a condition that afflicts tens of millions of Americans.

Are these and other innovators delusional? As I argue in my new book, ***The Silver Lining***, absolutely not. Studying past downturns illuminates clear signs of hope.

First, many great companies were formed in years featuring a downturn.

Take **NCR**.

The 1870s and 1880s were very tumultuous times in America.

Despite seemingly never-ending turbulence, an important change began to take place as retailers moved from small, mom-and-pop operations to larger-format stores staffed with employees.

This transition led retailers to realize that existing cash management systems — which for some retailers meant no more than a wooden box — had real limitations.

John Patterson and his brother Frank had first-hand experience with these limitations. They owned a general store in one of their coal mines in Ohio, and often struggled to figure out why they weren't making money.

In the early 1880s, they purchased a product called "Ritty's Incorruptible Cashier" sold by a small Ohio business. John Patterson grew so passionate about the product that in 1884 he purchased the company, re-named it National Cash Register, and began to accelerate the cash register's development.

The company developed novel approaches to market development that are common practice today, such as developing sales collateral and creating sales force incentives. Thomas J. Watson Sr., who went on to transform **IBM** into the technological powerhouse it is today, honed his legendary sales skills at NCR. By 1911, NCR had sold more than 1 million cash registers and had close to 95 percent market share.

NCR is not an anomaly. **General Electric, Microsoft,** the **Walt-Disney Company, Revlon, Hewlett-Packard, Whole Foods Market**, and many others started in downturns.

Further, downturns can't hold back game-changing innovations. For example, in the 1890s not many people consumed soup. The product was very cheap to make, but high water content made distribution expensive. The nephew of the general manager of the Joseph Campbell Preserve Co. had an insight: if he could just reduce soup's water content, he could dramatically decrease its price.

Condensed soup didn't taste as good as fresh soup, and mass-production constrained consumer choice. But condensing soup cut costs by 70 percent. The company took off, became profitable for the first time, and renamed itself the **Campbell Soup Company** in 1921.

Similarly, Fortune's first issue was in 1930, right after the stock market crash. Procter & Gamble introduced disposable diapers in 1961. **Nokia** introduced its first car phone in 1982. And **Apple** began its stunning transformation by bringing out its first-generation iPod in 2001.

It is natural to think that relatively small companies might feel the brunt of a downturn.

Innosight research suggests otherwise.

We looked at the last three U.S. downturns and identified 44 "on the brink" disruptors. These were companies like **Nucor** in the late 1970s, **Best Buy** in the late 1980s, and Amazon.com in the early 2000s that had begun the process of transforming an existing market or creating a new one, but hadn't quite broken through to the mainstream.

In the face of tough times where sock markets sagged and market leaders stumbled, these companies grew on average by more than 30 percent a year.

Who should we watch in this downturn?

On-the-brink disruptors like **Hulu.com** (who became the leading online video provider in about a year), **Alibaba.com** (whose online marketplace allows small Asian businesses to access the world market), **Qliktech** (whose simple software helps companies make sense of deluges of data), and **EnerNOC** (whose demand management services turn companies into virtual energy producers).

Innovation is possible, no matter how dark the times.

And innovation has never been more important. Industries are converging, competitors are emerging, and technology is advancing at break-neck pace. Competitive advantage that took years to create disappears seemingly overnight.

Many companies think that innovation and survival are discrete choices. They are not. Companies that put their heads in the sand and wait for times to get better are sowing the seeds of their own destruction. Thriving in today's "Great Disruption" requires that companies confront the new reality of constant change.

The silver lining of today's tough economic times is that the scarcity and discipline that will be imposed on innovation efforts in many companies is actually good news.

Abundance is a hidden innovation killer. Scarcity will force companies to do what they should have been doing already, such as prioritizing near-term profits over ethereal promises of long-growth that often never materialize.

It can be done. Decades of academic research and applied research have brought great clarity to the world of innovation. Companies like Procter & Gamble, **Johnson & Johnson**, **Cisco Systems**, and many others are showing how to make successful innovation systematic.

Companies will have to make some tough choices, some of which are sure to be wrong. But companies that learn to think and act in the right way have a chance to create the next decade's worth of competitive advantage.

Scott D. Anthony is President of Innosight LLC, an innovation consulting and investing firm with offices in Baltimore, Boston, Singapore, and India, and the author of The Silver Lining: An Innovation Playbook for Uncertain Times (Harvard Business Press, June 2009).