



# Innovation Within Reach: Balancing Growth and Cost Discipline in Times of Uncertainty

By Ned Calder, Freddy Solis, Anna Veatch, and Rob Bell

## Key Takeaways

- Companies can be innovative and future oriented during times of uncertainty and industry slowdown.
- This requires making strategic choices about where to invest and how to allocate resources, with a focus on near-term opportunities that align with long-term goals.
- Critical enablers like rethinking product and market development and driving cost transformation can help accelerate near-term innovation wins.

**C**ompanies often act predictably in periods of economic uncertainty and industry slowdown. They seek to contain costs, often levied as across-the-board project or resource cuts. They also scale back resources dedicated to innovation and pause anything with unclear near-term value.

The consequences are as predictable as the company's behavior. Growth is delayed or stalled. Progress on critical initiatives is lost and not easy to regain. And high-value employees leave for other organizations or industries that have more promising prospects.

It's a destructive cycle. Leadership teams don't have to choose between an innovative posture and cost discipline in a resource-constrained environment. That's a false dichotomy.

Growth and innovation can coexist with a focus on efficiency and cost containment. Look no further than Meta's recent performance where headcount was cut by 22% while revenue grew by 15%, enabled by simultaneously finding efficiencies while deploying new tools like AI to drive growth. Achieving both these objectives can drive significant value – Meta's stock price jumped 14% on the news.

In addition to financial benefits, maintaining a focus on growth and innovation during a downturn can help companies develop an advantage over competitors. As others hunker down, those able to sustain growth programs can gain first mover advantages and solidify key customer relationships.

European airline Ryanair, for example, is well known for ordering aircraft in times of turmoil. It was the first airline to place an order with Boeing in 2002, while the industry was still recovering from the 9/11 attacks. In December 2020, it became the first airline to place an order for the 737 Max after the plane's grounding. Similarly, hotel chain Marriott expanded room counts through the pandemic, despite a 60% drop in revenue in 2020. This helped it to recover and surpass pre-pandemic levels by 17% in 2023.



Navigating the dual objectives of growth and cost containment requires a different approach to innovation strategy and opportunity development, informed by four enablers: 1) developing a portfolio of opportunities that are commercially relevant in the next one to three years and aligned to long-term shifts; 2) optimizing product development for speed and impact; 3) market development leveraging high-impact, go-to-market changes that can be implemented quickly; 4) a focus on strategic cost reduction, executed in a way that minimizes value destruction.

## 1. Fill the Portfolio with Future-Now Opportunities.

Even when economic downturns contract strategic planning horizons, there is value in prioritizing the generation of insights and opportunities aligned with broader industry shifts that have long-term upside. This means companies should have a clear perspective on how their industry will evolve not just over the next one to two years but also over the next five to ten years.

Those insights can complement other criteria – from size to profitability and customer receptivity – and shine a light on opportunities that are “future-now,” meaning they are commercially relevant in the near-term while also strongly aligned with longer-term trends to ensure sustained relevance. Because they have near-term relevance, they often manifest as foothold markets in a broader industry transition.

Consider an example from the tire industry. One of the major disruptions that Michelin is using to potentially reshape the industry is non-pneumatic tires, which are airless tires not susceptible to flats. While their cost and performance don't meet the requirements of the mainstream passenger vehicle market today, the benefits around durability suggest a promising future opportunity once the technology improves.

To make this a future-now opportunity, Michelin is pursuing applications where non-pneumatic tires might gain traction, such as construction vehicles, lawn tractors, and ATVs. These applications have, for example, lower speed and weight requirements for which the technology is good enough. These footholds provide a near-term opportunity that generates revenue and covers investment while providing a springboard to grow and expand.

While future-now opportunities should not make up the entire portfolio, explicitly looking for and prioritizing them can help to bring innovation

within reach and balance short-term and long-term demands for returns. It can also challenge popular models that attempt to neatly classify opportunities as either near-term or long-term.

## 2. Accelerate Product Development Speed and Impact.

In addition to designing the right portfolio, companies need to optimize how they advance opportunities. Over time, product development processes get bloated with extra layers of hierarchy and complexity that contribute to inefficiency and do little to improve outcomes. This reduces speed to market and delays the time to payback. It also prevents opportunities from reaching their full potential.

Companies frequently address this with incremental improvements that are insufficient. In our experience, there are four levers that can have an outsized impact in creating a more agile product-development process.

**Lever 1: Customer Insights.** One of the factors that drives unnecessary iteration is a lack of deep customer understanding at the front end of product development. Companies understand their immediate buyers' needs related to existing products, but they often have only a superficial understanding when it comes to new offerings.

One chemical company we worked with had a solid understanding of how its customers evaluated current product performance and what incremental improvements they valued. However, it had little awareness of its customers' broader "jobs to be done," which is insight into what really motivates buyers to make decisions. It didn't understand challenges around inventory management and operational complexity related to ingredient count for formulations, which were missed opportunities to build more compelling solutions.

To remedy that, it started to **work more closely with customers to uncover and understand these needs.** Customer insights are critical as organizations increasingly **shift from selling products to selling solutions** which requires broader and deeper insights across customer needs.

**Lever 2: Behavior Change.** Organizations that are known for speed and agile product development intentionally create distinctive cultures that encourage specific behaviors. But because industrial organizations tend to focus more on process and structure, they can often ignore behavioral impediments to building a more agile culture. To overcome this bias and make progress, they need to identify where existing behaviors are impeding the **product development progress and design targeted interventions to shift them.**



Consider one engineering company we worked with that had a well-designed process with a strong focus on the customer. This should have ensured a rich discussion during early reviews on the customer problem being solved. However, the behavior of leadership during those reviews shifted the conversation in unproductive ways; for example, they would interrogate teams about product financials prematurely, an act that discouraged new market exploration.

To address this, the engineering company subsequently instituted explicit norms reviewed at the start of meetings, which reinforced the notion that early-stage meetings were intended to steer opportunities, not vote them up or down.



### **Lever 3: Product-Development Processes.**

Established companies often have a well-defined product development process. It is highly codified and hard wired into their systems, with software and dashboards to manage activities. It assumes complex approvals routing, and most steps are padded or designed for an average timeline. In most situations, when we ask clients when they brought a product to market quickly, they name an instance when something was elevated to “workaround” status – one that got to bypass the existing process or fast-track approvals.

One of the fastest ways to accelerate product development is to review the existing product development stages, move away from a one-size-fits-all, and identify leaner models that would be adequate for a vast majority of situations where the default process is over-designed and cumbersome.

**Lever 4: Artificial Intelligence.** This lever might reshape how companies do product development, quickly generating multiple design options based on predefined criteria. It enables engineers to explore a wider range of design possibilities and optimize products. It can also help with testing ideas by creating realistic simulations of how a new feature or product will perform.

NVIDIA, the market leader in chips powering the AI revolution, is using custom AI models to improve chip design. While AI’s impact on product development will unfold as capabilities improve, there are relatively easy-to-implement solutions today that can drive efficiency without requiring massive organizational changes.

One consumer packaged-goods company we worked with leveraged AI to better analyze returns and warranty claims. The process generated important insights that were fed back to engineering teams and had an immediate impact on quality.

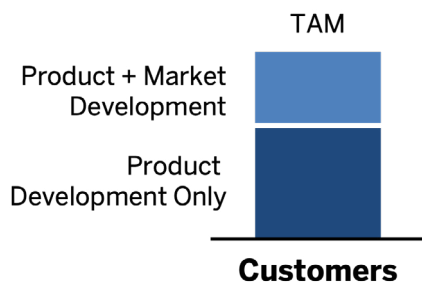
There are other levers companies should consider for improving product development processes. For example, changes to product architectures or shared service models can produce meaningful performance gains. But these take time to implement and therefore are best combined with some of the actions identified above that can be more quickly deployed.

## **3. Maximize the Portfolio’s Full Potential Through Market Development.**

Opportunities in a growth portfolio are valuable only if their full market potential is realized. When evaluating future-now opportunities, however, companies unintentionally limit their assessment of what an opportunity can achieve by using lenses and analytics related to today’s market.

Companies often define a total addressable market, or TAM, when prioritizing opportunities. They then design and build a product for that market and select foothold opportunities to start their journeys. However, they often don’t focus on critical market-development activities essential to enhancing the attractiveness of footholds and reaching the TAM in the near and longer term (see Figure 1). A robust market-development plan will identify the

**Figure 1: Market Development Impact on Attractiveness and TAM**



need to invest sufficiently in marketing, customer education, or new capabilities like solution selling.

Caterpillar, for instance, aims to pioneer an autonomous heavy equipment era and has significantly invested in market development activities as part of its MineStar Command offering. Through close customer collaborations, Caterpillar tailored its autonomous truck technology to meet specific mining needs. The company facilitated ease of integration by ensuring interoperability with different equipment brands, further lowering barriers to adoption. The system was designed to be cost effective for smaller operations and scalable as needed. Extensive on-site training and global support services ensure customer confidence. Rather than just developing autonomous products, Caterpillar used a level of intentionality often not seen in developing new market solutions.

Creating a market-development playbook can help to focus sales efforts by defining the activities required to accelerate adoption of a product in market and to convert potential buyers into customers.

A downstream oil and gas company found its sales efforts scattered and opportunistic, leaving them largely dependent on the efforts of fragmented regional sales teams. To drive energy and focus resources, the company created a market-development playbook that contained a roadmap

of coordinated marketing and sales actions, deep profiles of target customers organized by segment, customized value proposition analyses with communication scripts for each customer type, and plans to develop evidence to amplify the effort. This effort produced a more than 20% near-term increase in conversions in target geographies.

#### **4. Strategic Cost Reduction: Focus the Portfolio on What Drives Value.**

Companies should recognize they have a choice regarding where and how to make reductions when facing constraints. All too often, cutbacks come in the form of a uniform haircut across the organization with easy-to-implement targets regardless of strategic importance, such as travel. This is a missed opportunity.

A better approach starts with taking a deeper look at a company's business model and cataloguing activities that drive value. This enables a company to determine what should be preserved, what needs to be reimaged, and what drives lower value and can likely be minimized – from a customer's perspective. This can be quite revealing for driving focus in cost-cutting exercises and allow a company to more clearly target those activities that do not contribute meaningfully.

While such an approach may seem obvious, it is not always easy to put into practice. Organizations are better at accumulating roles over time than continuously reevaluating if certain activities are still valuable. This is in part due to a normal inclination to defend one's job versus objectively questioning its relevance. It's also a consequence of historical decisions that were made in a particular circumstance being turned into universal truths. The phrase "that is how we've always done it," is a common sign of this error.

To make progress companies should first clarify their most important customer jobs to be done

**Figure 2: Cost Reduction Based on Customer Jobs to be Done**

		CUSTOMER FUNCTIONS				
		Product R&D	Procurement	Manufacturing	Distribution	Products & Geos
SUPPLIER COST DRIVERS	R&D & Technical Service	Maintain product lines in accordance with regulation		Support mfg. changes Improve mfg. processes		Reduce raw material global complexity
	Supply Chain		Build contingency plans for industry shocks	Avoid ingredient changes (avoid reformulation)		
	Marketing & Sales		Feel confident in my status as a customer			
	Customer Service	Reduce product sampling complexity	Increase invoicing accuracy		Increase product demand accuracy	

**KEY**

- **Minimize:** Jobs where costs need to be reduced to a minimum viable threshold
- **Reimagine:** Jobs that can differentiate supplier but are not feasible unless cost is optimized
- **Preserve:** Jobs where support needs to be preserved at existing standards to uphold customer relationships

and then look at how all activities in the business contribute to meeting those needs.

A basic materials company we worked with identified over 40 major customer jobs to be done in nine functional categories. It then assessed how much each activity contributed to solving the most important jobs and the associated cost to do it. This is conceptually illustrated in Figure 2 above. This approach allowed it to rationalize certain activities with almost no impact on productivity or customer experience.

An example is how R&D and technical service interacted with customer manufacturing teams. Typically, they would support manufacturing changes and proactively make suggestions for improving processes. The exercise, however, revealed that while manufacturing support changes were indeed valued by customers when formulation changes were encountered, any proactive manufacturing improvement analyses often were not implemented and thus were deemed an activity

that could be deprioritized by these teams, driving time savings. This analysis was repeated for each major job to be done across major customer functional areas.

This approach requires more effort than coarser approaches to cost cutting. However, it has the potential to reduce costs while minimizing any impact on the customer experience or revenue, and may, in some cases, enhance both.

Maintaining an innovative and future-orientated posture in a market slowdown is not an impossibility. It requires making granular and nuanced choices about what opportunities to invest in and where to find the resources. Those that do make those investments have the potential to emerge from the slowdown even more fit and positioned for long-term success.

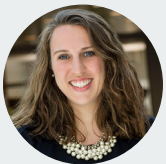
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