Innovation: the key to future growth

Which is more innovative? The global conglomerate with revenue of $363 billion or the entrepreneur whose ground-breaking DoubleClick software package revolutionised online selling and was ultimately sold to Google for more than $3 billion?

Answer: it’s a tie.

The global behemoth is General Electric, represented at INSEAD’s Leadership Summit in Asia by Colin Low, Regional Executive of GE Growth Initiatives in Southeast Asia and President of the company’s Singapore, Philippines and Cambodia businesses. The entrepreneur is Kevin Ryan, INSEAD alumnus (MBA ’90D) and currently CEO of Alley Corp, an internet company he founded that currently fosters six online businesses. He is also chairman of the online luxury retail discounter Gilt Groupe. Both took part in INSEAD’s Leadership Summit in Asia earlier this month at the school’s Asia campus in Singapore and, afterwards, spoke to INSEAD Knowledge about innovation.

“Innovation means changing the status quo, impacting customers and really creating full value for them at the end of the day,” says Low. This, in turn, involves the “products, services and technology that the company produces, or it can be business models and leadership (within the company),” he adds.

“It’s the thing that makes a consumer say, ‘I’ll use Product A versus Product B,’” says Ryan. “Providing a product or a way of doing business that hasn’t been done before; and sometimes it can be a dramatic shift and sometimes it can be quite a subtle shift.”

Both GE and Ryan have businesses with global clientele. GE has a physical footprint; while Ryan has a cyber-reach. GE puts its plants where its businesses are: research centres aimed at serving the needs of the global cities of tomorrow (a future fixed at the year 2050), based in New York State, Munich in Germany, Bangalore in India and Shanghai in China. “The big mega-trend is towards sustainable cities,” says Low. “And those cities will be developed by the rural population migrating to large cities all over the world. Bangalore and Shanghai are the world’s fastest-growing emerging markets,” he points out. “What better place to have research centres?”

GE has actually developed electrocardiogram (ECG) machines in Bangalore, where they are also used by village doctors to treat patients. “Even three years ago we would have had no ability to enter this kind of marketplace,” adds Low. “We can sell to other emerging markets now, so this is a good revenue boost for a company like GE.”

Ryan is concerned about sustainability, too,
especially sustaining the interest of venture capitalists in his businesses in today’s “iffy” economic climate. “We generally fund our companies ourselves for the first six months, then we go out and raise venture capital,” he explains. “I’ve raised in the last couple of years $100 to $150 million for five or six different firms in about 10 different rounds. As a VC (venture capital) investor, you’re really counting on the fact that by 2012 or 2013 we’ll really start to be a sustainable company, and if we have a big market and a great team it’ll probably work.”

Ryan’s customers for Gilt Groupe luxury sales include the Japanese, the second largest market for luxury goods in the world, his foothold in Asia, and one of the keys to achieving his objective of growing the companies he starts as much as possible. “I never think about an exit strategy when I start a company,” he says. “I think about building it and making it as big as possible. If you can do that, you have all kinds of options: lots of people would like to buy it (for example, Google and its $3 billion purchase of DoubleClick); you can get private equity and liquidity that way; you can take it public. You don’t have to worry about it at that point. But I don’t really look actively to sell unless I think at some point it’s a business where we need more scale and we can’t do it on our own.”

It’s at just about this stage that small entrepreneurial companies show up on the radar screens of big conglomerates like GE, who whip out their cheque books and start spending money from the corporate research budget. It is often cheaper and less problematic in terms of liability for large corporations to reverse outsource their R&D and buy smaller companies with proven innovative products and services.

“I think the model for how we work now is learning from the experiences of companies like Kevin’s and the venture capital world where we see small start-up companies that have access to leading-edge technology,” says Low. “For example, we’ve got a $300 million fund looking for VC-type acquisitions so it allows a big company like GE to have the nimbleness of a venture capital company like Kevin’s.”

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