

By James Moed



# Reframing Recession: Lessons from the potato

The headlines have been intimidating us for months. Between the credit crunch and skyrocketing costs for food and fuel, a recession of some kind seems imminent. Of course, we have experienced much of it before, but as we busily develop plans to weather the downturn, we tend to forget that recessions have plenty to teach us about optimism. Go back 200 years and consider the humble potato. In the 1790s, conflict, political upheaval and even climate change had created a situation we would recognise today. Across Europe, repeated crop failures had devastated the grain market. Into the gap stepped the unloved, unconsidered and until then, unpopular, potato. Two centuries after being introduced to England, it became a staple of the British diet.

Spud 'innovation' did not take off because of a concerted campaign by the Potato Growers Association. The potato's success was the result of the resourcefulness of ordinary people. They had an overarching need – feeding their families – which drove their ingenuity. Potatoes were no obvious alternative to grain, yet they proved so versatile and easy to grow that, even when the grain market recovered, people stuck with them and developed hundreds of ways to enjoy them – loyalty that has kept the potato in the position it enjoys today.

Today, the story remains the same – GDP growth may waver, but people's big needs stay largely the same – and when they face economic constraint, they readily come up with new ways to satisfy them.

The fear of recession drives managers to cut costs, reduce sales expectations and retrench across the board – particularly when it comes to developing new products and services. Meanwhile, consumers stay nimble – re-framing their problems created by tighter budgets and coming up with new solutions – and that doesn't always mean finding a cheaper alternative for the same thing.

For example, Charles and Paula, a young couple who have just bought a larger house, enjoy entertaining at home. This year, their annual bonuses were less than they expected, so they do not have the money to renovate their dining room – and still pay the mortgage. However, their basic need to share their hospitality – and show off their good taste – persists. This holiday season, they may have to leave the walls and curtains unchanged, but they will probably compensate with some smaller details like scented candles, or just as likely invest in a cocktail dress that shifts attention from the wallpaper to the hostess.

When the economy is down, people look to different product categories to solve persistent needs, making trade-offs that reflect both conscious and unconscious decisions. In the last recession we called this "The Lipstick Effect" – as budgets tightened, women still sought out ways to address their need to flaunt a little and sales of cosmetics went up. Just as in 2002, Estée Lauder's makeup sales have recently felt an uptick – 11 per cent in the third quarter of 2007.

So, while companies are focused on cutting back, consumers' own imagination and initiative keep them one step ahead. And thanks to developments in technology, media, and retailing, they are in a better position than ever to stay ahead. This recession will feel different than the last – and consumers may come out on top.

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Consumers have become increasingly adept at mixing the expensive and the economical and the stigma of budget shopping has all but evaporated. The result is a savvy juxtaposition of the high- and low-end, an ability and willingness to toggle between Conran and IKEA, Prada and Primark.

Moreover, the internet now offers a whole new landscape of data and price transparency for consumers to use and explore – and with the growth of high-speed mobile connectivity, people can comparison shop anywhere at any time. For brands that rely on lethargy rather than love, loyalty is a thing of the past. People expect to have a dialogue with their brands, and with alternatives readily accessible, they will go swiftly elsewhere if they don't get the response they want. Even industries with traditionally high customer retention like financial services and utilities are seeing unprecedented churn.

The drop in switching costs is largely driven by the explosion of social networks that enable consumers to bypass corporate marketing and learn from one another. Trusted forums like TripAdvisor.com are now the first stop when planning a vacation. The peer-to-peer online review service harnesses and organises views and reviews of travel experiences from thousands of travellers from all over the

world. People are forsaking traditional media for their own conversations – in 2007 for the first time, time spent online was equivalent to global TV viewing hours – 'professional' content is great, but talking about it, sharing it, and remixing it is even more engaging.

In this environment, keeping up with consumers is not just about predicting the next 'lipstick,' it means understanding people's needs in advance and responding as inventively as they do. Companies who understand how people with tight budgets re-frame their problems can not only figure out unexpected consumer tradeoffs, but also identify new opportunities. Thinking about people's big needs can uncover ways to get into markets that once seemed inaccessible or even unimaginable.

The marriage of opera and multiplex cinemas, for example, would once have been an astonishing combination. Prices at New York's Metropolitan Opera are famously astronomical, so finding a way of increasing ticket sales during hard times seems an unlikely achievement. Yet an experiment to broadcast performances live, worldwide to High Definition screen cinemas attracted amazing box office success. At a fraction of the price of an opera house balcony seat, over 300,000 people attended simulcasts of the Met in 2007.

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According to one of the organisers, National CineMedia (a company that typically makes their money from on-screen advertising), the audience is expected to exceed 1 million in 2008. Live sports events, rock concerts, even classic TV shows are being distributed in the same way. By focusing on people's wider needs around entertainment, companies like CineMedia are able to create a new context for an existing offer – and make better use of cinemas' investments in seats, projection and sound systems that sit unused 70 per cent of the time. In the New York Times, Shari Redstone, CEO of National Amusements, one of the largest cinema chains in the US, describes the shift as “less ‘movie theatre’ and more ‘community entertainment’.”

Finding ways to reframe existing services in a new consumer context requires both a wide understanding of people's big needs and careful observation of their daily workarounds. The resulting insight can uncover minor changes that can lead to a major increase in business. For instance, facing the challenge of enticing people into opening new accounts, Bank of America looked for innovation opportunities. To understand better the desired market, members of Bank of America's innovation team travelled across the United States. They discovered that many people found ways to round up everyday purchases for speed and convenience. Inspired by this widespread habit, the bank developed Keep the Change – a service that rounds up purchases made with a Bank of America Visa debit card to the nearest dollar and transfers the difference from individuals' current accounts into their savings accounts. The new feature was rolled out in October 2005, and in less than one year, Keep the Change attracted 2.5 million customers, translating into more than 700,000 new current accounts and one million new savings accounts for Bank of America. The bank achieved the kind of organic growth normally linked to major new product development with a single, seemingly small change to its offering.

This recession may be the ideal backdrop for experimenting with small changes that target big needs. Frugality drives innovation and limited resources are just another design constraint. For companies, this means more reasons to identify the small tweaks to products or offerings that unlock big opportunities. For consumers, this means a greater willingness to embrace solutions that might have seemed unfamiliar or inconvenient just months earlier. For example, cheap internet telephony services like Skype still seem alien to many people, but may be some of the biggest winners if a downturn takes hold.

So – when recession hits, what will you need to consider if you want to both keep pace with consumers' new tradeoffs, and give them the inventive solutions they need?

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1. Hang out with your customers. Forget the narrow focus on observing how people behave with your products – you will need to take a wider perspective. Understand what else is happening in their lives. Watch and listen carefully and remember – do not think ‘category,’ think ‘need’ – it is then that you will begin to uncover new connections to your business. If you are thinking in terms of technical specs (“people need photos with 8 megapixel resolution”) you are not casting your net wide enough (instead, think – “how do people address the need to keep a diary of family life?”).
2. Watch out for a new breed of unlikely competitors. With your customers' big needs in mind, think about which experiences offered by other products and services deliver against the same needs as yours. For instance, white iPod headphones and spacious business class lounges both enable people to signal their need for privacy in public, which begs the question: can cheaper immersive media technologies give people a better way to escape than traditional luxury?
3. Be inspired by extreme value. When consumer spending is down, the richest sources of inspiration are markets and models where people are delivering more with less. For instance, how do street vendors of knockoff phones in China provide more attentive post sales service than the global brands? And why are foodies flocking to the stalls of London's Borough Market instead of fancy brunch spots?
4. Go elephant hunting with a slingshot. In other words, ask yourself: which big needs currently addressed by complex, high-priced options might be successfully targeted by a smaller and a cheaper solution? For inspiration look at one of 2007's top video games – Nintendo's Wii Fit, a fitness programme which delivers a home workout in a convenient and non-intimidating way at a fraction of the cost of gym membership.
5. Don't be afraid to prototype. Stop talking about your new idea, just try it out. Do not obsess over go to market plans or innovation strategy – instead, build to learn. Many of the small changes that will occur to you will be easy to pilot – allow yourself small scale ‘failures’ until you get the proposition just right. Tougher times are exactly when you should give those managers who are closest to your customers the freedom to act on their insight and to experiment.

Most importantly, do not forget that recession is temporary – and the solutions that win over consumers today may well be the ones they hold onto when the pendulum swings back.

Who knows, you may come up with the next potato.

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