

Staving Off Maturity: Strategic Innovation for the Middle Market Company

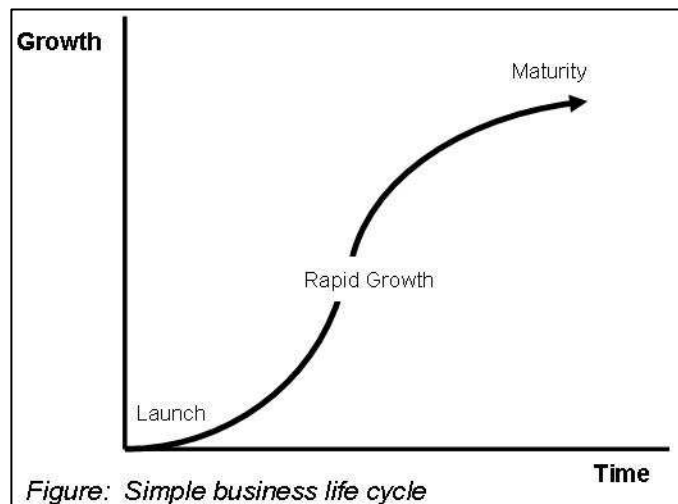
By Cecilia R. Edwards

We have all heard the adage “If a business isn’t growing, it’s dying.” Interesting enough, if may just be the mature, successful companies that have well established brands and strong cultures, the efficient operators and creators of best practices, and those with well established market positions and predictable profits for whom growth might pose the greatest challenge.

Every business model has a life cycle that starts with a launch phase, moves through a period of rapid growth and ends up as a mature business with a much slower growth rate than previously enjoyed. In the past, it may have been possible to coast through the mature stage and continue to generate reasonable profits. However, in the day of rapid technological advancement, significant amounts of change are needed just to maintain. Companies that do not engage in proactive efforts to continuously reinvent themselves and create new, breakthrough approaches – strategic innovation – are relegating themselves to a sure obsolescence and then demise.

Strategic innovation, however, is easier said than done for the corporation that perfected the formula for success in their industry. The

very same factors that allowed them to thrive in their current mature – and potentially dying – markets are the very things that can prevent them from being successful in creating a fresh start on the business life cycle through a new business model.



Vijay Govindarajan and Chris Trimble, in *10 Rules for Strategic Innovators: From Idea to Execution*, articulate a path to success for these companies that relies on establishing the capacity to launch new and innovative business that do not rely on the old business model, but are based upon more theoretical

assumptions about the direction the marketplace is headed. To be successful with these new models – which have the potential to create an entirely new growth curve for their parent companies – there are very different sets of rules that must be followed. Govindarajan and Trimble suggest three key success factors:

- **Forgetting** – existing business definitions and models of the core business in order to shift from exploitation of capabilities to exploration of new possibilities
- **Borrowing** – the necessary assets from the core business that can provide a competitive advantage to the new business
- **Learning** – how to accurately predict the performance of the new business as quickly as possible.

Large and mature corporations are not the only ones that can benefit from these lessons. Middle market companies that are in new or growing markets must also learn to harness the power of innovations. While they do not have an established core business from which to differentiate themselves, the lessons of forgetting, borrowing, and learning apply equally well to them.

Forget – I am a new or stand alone company. What do I have to forget?

New or stand-alone companies have lots to forget. While not part of a mature company with a core business, they operate within a business context that often sends off some pretty consistent signals about what is the right way to do business. Having industry experience – or business experience of any kind for that matter – creates a set of established norms around how business is done. (This is very similar to the idea that it is often easier to train someone new than

someone with experience in the field because the new person has less to unlearn.)

There are some very specific actions that can be taken to prevent the past norms, spoken and unspoken, of the management team from unintentionally becoming the default norms of the business that requires innovation for growth.

- Ensure that the right business model is selected for what it being attempted by carefully examining business models from a wide range of industries and not just the typical one for your industry
- Expand your concept of the market as broadly as possible – then determine in what segment of that market to focus your business
- Staff with a diversity of people – entrepreneurs and those from mature businesses, industry experts, unique skills, etc.
- Deliberately establish business norms that are supportive of your company's objectives
- Create accountability systems that include learning about the unknown factors and assumption inherent in the business model
- Deliberately determine the culture – values, beliefs and decision biases – that support the business. Don't assume a culture and don't let it naturally emerge.

Borrow – Without a parent company, from whom can I borrow?

Borrowing in this context is largely about decisions on outsourcing, hiring, and partnering. These are all forms of borrowing from other established companies in the marketplace. Not every aspect of a business model will need to be innovative. There are

certain elements that are more commodity-like and would create no competitive advantage for you to recreate the capacity in-house. There are other services/products that may provide competitive advantage but you can secure them through innovative partnerships and relationships with others. Each decision should be weighed to determine whether the same or better strategic advantage can be created through outsourcing or partnering versus developing the capacity in-house.

- Determine which things should be outsourced (borrowed from traditional industries) and which things should be manufactured in house
- Carefully determine when to borrow the reputation/brand of others through partnering or hiring individuals with valuable personal brands
- When partnering with other companies, be clear about how tensions will be managed
- Don't partner to save costs, partner for strategic advantage only

Learn – What do I have to learn that is different from the large corporation?

The implementation of this success factor does not materially differ from that of a large,

mature corporation seeking to be innovative. If you are playing in a new market, with a business model that is based upon a series of assumptions yet to be verified, there is a need for explicit learning. The faster the assumptions of the business model can be validated (or disproved), the faster will be your ability to predict the profitability of the business. Once profitability can be predicted, the necessary adjustments can be made to the business model to maximize the profit potential of the venture.

- Dedicate sufficient (more than usual) time to planning – do not let the “planning is not doing” syndrome dominate
- Use a frequent planning cycle to accelerate learning
- Use planning tools that are flexible and quick – avoid creating a false sense of precision by providing too many details
- Use planning tools that provide insight into theory and assumptions behind predictions
- Focus on increasing ability to predict the market by testing uncertainties as quickly as possible

By developing the capacity to successfully implement strategic innovation, companies can enjoy sustained growth by proactively changing the rules of the game and creating new paths to profit for themselves.



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Building upon over ten years of experience in strategy consulting across a wide range of industries with Fortune 500 companies, private equity firms, small businesses, non-profit organizations, churches, and foundations, The RobinsonEdwards Group brings a multi-disciplinary approach to creating long-term shareholder value and enabling innovation.

With an emphasis on translating the best and most recent thinking done for Fortune 500 companies, The RobinsonEdwards Group employs a powerful set of tools to deliver high impact results for middle market companies and maximizing the exit opportunity for their investors.

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