Everest Group

# Staving Off Maturity: Strategic Innovation

Cecilia Edwards, Partner

Copyright © 2016, Everest Global, Inc. All rights reserved.

We have all heard the adage "If a business isn't growing, it's dying." Paradoxically, the challenge of maintaining business growth is often the greatest for those organizations that seem to have the most strength and longevity: the mature, successful companies that have well-established brands and strong cultures, the efficient operators and creators of best practices, and those enterprises with well established market positions and predictable profits. To stave off maturity, businesses must rely on strategic innovation.

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

**EXHIBIT 1**

Simple Business Life Cycle

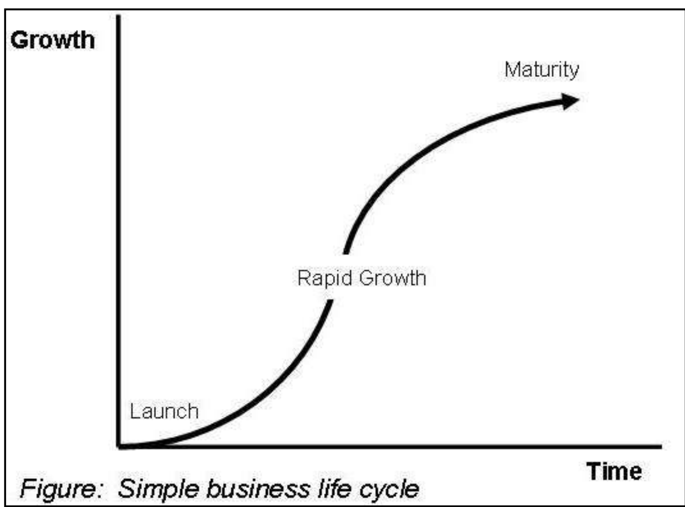

*Figure: Simple business life cycle*

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.

In 2005, Vijay Govindarajan and Chris Trimble published 10 Rules for Strategic Innovators: From Idea to Execution ("Ten Rules"), in which the authors articulate a path to success for mature companies. Their advice is still quite relevant for businesses today, more than a decade later. The way forward relies on establishing the capacity to launch new and innovative business strategies that do not rely on old business models but instead are based upon more theoretical assumptions about the direction the marketplace is headed. These new strategies have the potential to create an entirely new growth curve for their parent companies.

Let's briefly revisit three of the guiding principles shared in Ten Rules—forget, borrow and learn—and consider a few examples of companies that have used these principles to "reinvent" their future.

1. **Forget** existing business definitions and models of the core business in order to shift from exploitation of capabilities to exploration of new possibilities.

All companies operate within a business context that sends off some pretty consistent signals about their "right way" to do business, learned from years of experience. However, to innovate for growth, companies need to guard against having past norms, spoken and unspoken, from unintentionally becoming their default modus operandi.

Have you noticed how it is often easier to train someone new than someone with experience in the field, because the new person has less to unlearn? That's the phenomenon at play here, but on a corporate scale.

So how can a management team "forget" old norms and open their minds to new possibilities? Here are a few tips:

- Examine business models from a wide range of industries and not just the typical one for your industry
- Staff with a diversity of people; include both entrepreneurs and those from mature businesses, industry experts, those with unique skills in emerging technologies, etc.
- Deliberately determine the culture—values, beliefs and decision biases—that support the business. Don't assume a culture, and don't let one naturally emerge
- Expand your concept of the market as broadly as possible, then determine in what segment of that market to focus your business

A good example of this is Nintendo. Now the world's largest and most successful gaming company, Nintendo began in 1889 as a playing card company and thrived in that market for 50 years. When the founder was succeeded by his 22-year-old grandson, the journey to Nintendo's current success took a circuitous route, with stops in taxi service, instant rice, hourly hotels and toys. None of these business models were related to the model that resulted in their past success in playing cards. Instead, the company took advantage of an opportunity that seemed an expansion of their foray into toys. They developed the arcade game Donkey Kong and propelled themselves to new levels of success.

2. **Borrow** the necessary assets that can provide a competitive advantage to the new business.

Not every aspect of a business model needs to be novel, unique or innovative. In fact, there is much to be said for borrowing great ideas and capabilities from other established companies in the marketplace. Outsourcing and partnering, for example, can be smart, speedy ways to propel growth.

Likely, there are certain elements of your business strategy that are commodity-like, and you would create no competitive advantage by recreating those capabilities or maintaining the capacity in-house. On the other hand, there may be 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 created 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

Procter and Gamble historically relied on only internal teams and a network of trusted contacts to support the design, development and supply of their new products. When they came up with the idea of printing images on their Pringles potato chips, everyone liked the idea but the team was challenged with how to successfully execute it. The chips would need to be printed at high volumes, with edible dyes, in multiple colors, with reasonably high resolution. Their test run suggested that ink-jet printing might work.

Using their standard way of doing business, Pringles Print would have made it to market after two years and a significant investment from P&G to create the process, find an ink-jet company that had technology that could execute it, and negotiate a licensing agreement. They decided to borrow instead.

P&G reached out to their vast network of institutional and private contacts to see if anyone already had a solution that would address their needs. They found a university professor in Bologna, Italy, who also manufactured baking equipment. For the bakery he ran, the professor printed edible images on cakes and cookies. By borrowing his process and technology, with only a few tweaks, P&G was able to bring Pringles Print to market in less than a year and at a fraction of the cost.

A goal was later set by then CEO A.G. Lafley to have 50 percent of innovation coming from outside the company. He did this as a way to ensure P&G could sustain its annual growth goals and a pathway to develop new billion dollar businesses within the company.

3. **Learn** how to accurately predict the performance of the new business as quickly as possible.

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 expedient, explicit learning. The faster the assumptions of the business model are validated (or disproved), the faster your ability to predict the future 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 and agile 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
- Focus on increasing ability to predict the market by testing uncertainties as quickly as possible

Google is one company that has incorporated learning into every facet of its business model. They have adopted a ship then iterate approach to product release. In times past, companies would not dare release a product before they had perfected it in their minds. It was a sign of quality and attention to detail to have every aspect buttoned up before introducing it to the market—and the time to market was long. More importantly, the time to receive feedback was even longer. It was not until long after significant time and investment already had been made that real market insights, not those manufactured by focus groups, was received. Reacting to mistakes was time consuming and costly. This resulted in significant risk aversion as a commonplace market trend.

What Google and many other successful technology companies have done is to shift the focus to learning. By shipping early and iterating, they are able to make enough of an investment in time and money to push a concept to the market quickly. Then, as they did with the Chrome browser introduction, they pushed out a new version every six weeks. Based upon a continuous stream of feedback from real-world users, they improved the product incrementally in hopes of it reaching its intended potential. This does not always result in success, and failed products are pulled with equal speed. Even these unsuccessful products are not considered a waste, because the best features and learnings are incorporated into other products.

Forgetting old norms, borrowing assets from others, and learning by rapid iteration are three principles any company can use to avoid strategic obsolescence. By proactively changing the rules of the game and creating new paths to profit for themselves, companies can develop the capacity to successfully implement strategic innovation and enjoy sustained growth.

## About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empower clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com.

For more information about Everest Group, please contact:
+1-214-451-3110
info@everestgrp.com

For more information about this topic please contact the author(s):
Cecilia Edwards, Partner
cecilia.edwards@everestgrp.com