Are You Worried About Next Year's Growth Numbers?

Steady, incremental growth is a myth. Yet ironically, that is what shareholders and analysts demand. Of course, steady incremental growth can be achieved in the short term. It may even last for a relatively long time depending upon your specific industry. But there are only so many rabbits you can pull out of the hat by improving margins every year. In contrast, stepped growth occurs when a company's revenue increases as a result of innovation. History shows us that successful companies are able to manage both the short-term margins and the longer-term innovation management.

In their book The Alchemy of Growth, authors Baghai, Coley & White introduce the concept of managing growth using three horizons. Horizon 1 (H1) focuses on extending and defending the core business. Horizon 2 (H2) focuses on building emerging businesses and Horizon 3 (H3) focuses on creating long term options that will ensure the company's longer term future.

The tyranny of the urgent continually drives our focus toward solving H1 issues and problems. There is nothing wrong with that. In fact, a company will quickly fail if the short-term, pressing issues are not addressed. These H1 issues are the ones we are the most familiar with and the most comfortable addressing: managing supply chain costs, improving production efficiencies, improving quality, increasing market share etc. These are the activities that contribute to steady incremental growth. They are necessary and required in order to survive. But they are not enough to survive long-term.

Eventually, successful companies must implement business strategies that address H2 & H3 opportunities. H2 opportunities can be defined as adjacent to existing operations. For example, a company currently selling into the industrial segment sees an opportunity to enter the medical industry with the same product. Alternatively, a new product/service offering can be developed and sold into a familiar industrial segment. Both of these scenarios stretch the organization's existing knowledge and capabilities with the goal of generating new revenue. If the play is successful, the company will experience a "step-wise" increase in revenue. The potential top line revenue expands and the company can now re-focus on H1 activities to maximize profit resulting from this H2 endeavor. Some examples of H2 activities include: Toyota creating and launching Scion brand vehicles to address the Generation Y market (Existing technology & new market). Toyota developing and launching the hybrid electric Prius. (New technology & existing market)

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Companies that have survived the test of time all have a common trait: they have at some point successfully navigated the H2/H3 hurdle. They did this by strategically paying attention to trends, technologies and capabilities. By deliberately exploring and "connecting the dots", these companies were able to position themselves for exponential growth. This is not without risk and it flies in the face of daily pressures. H2/H3 activities do not provide a short-term ROI. In fact, they appear to be money and resource drains on the books. H2/H3 activities must be initiated by and protected by visionary leadership. Let's look at Disney, for example. Disney started out in 1928 creating animated shorts such as Steamboat Willie. In 1934, Disney made an H2 move to an adjacent market and created the animated film, Snow White, addressing the feature length film market. If Disney had remained only in the animation industry, the company would not be the giant it is today. Over time, Disney explored and entered various H2 & H3 endeavors. It is currently active in: film entertainment (Pixar, Marvel, Lucasfilm, Muppets), broadcasting (ABC, ESPN, A&E), vacations & resorts (Disney Vacation Club, Disney Cruise), theme parks (6 worldwide parks), live entertainment & merchandising. In 2014, Disney collected revenues of $48,813,000,000. That's $48 Billion with a "B"!

NEW markets	**H2** **Market Development** (Expanding through existing/incremental product revision and/or services Into NEW markets) Ex - Toyota Scion	**H3** **Disruption** (Creation of a market through a NEW Business Model and/or breakthrough technology) Ex- Disney Theme Park
EXISTING markets	**H1** **Market Penetration** (Expanding through existing/incremental product revision and/or services into EXISTING markets) Ex - Next year's model	**H2** **Product Development** (Expanding through NEW products and/or services Into EXISTING markets) Ex - Toyota Prius
	Existing/Incremental products and/or services	New products and/or services

For more information on how GaMEP can help you develop and implement an Innovation Management System (IMS), contact:

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Your company may not be the next Disney, but you can successfully adopt and implement H2 & H3 strategies that will lead you to step-wise growth. Here are a few simple steps to start with:

Step 1: Evaluate your current activities and classify them as H1, H2 or H3.
These are a few questions to consider:

Is the Value Proposition clearly understood and valued by the market?
- H1 – The market currently pays for this product/service.
- H2 – We do not provide this product/service, but the market demands it.
- H3 – The market has a clear pain point, but is unable to clearly articulate it.

Is the Customer Segment clearly defined (Who buys?)
- H1 – We have accurate market data and/or current customers.
- H2 – Market data is nebulous; other companies may participate but we don't.
- H3 – No one currently participates in this market.

Are the communication, sales and distribution Channels understood?
- H1 – We are currently active in all channels.
- H2 – We are not active in all the channels.
- H3 – We are not active in any channel or the channels are non-existent.

Step 2: Develop a balanced project portfolio that addresses all three horizons.
- Are your resources overly focused on one horizon over the others?
- Do you have all your eggs in one basket?
- Are you investing in and/or exploring future options?
- What trends/technologies are you investigating or investing in?

Step 3: Allocate resources and manage the projects accordingly.
- Are your limited resources aligned with and working toward your innovation strategy?

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- Do you have an innovation strategy?
- Do you estimate future revenue based upon current projects?

One way to build these questions into your planning is to implement an Innovation Management System (IMS). An IMS specifically addresses these steps and others to proactively help you manage your future growth streams. Proactively fostering growth does not have to rely on the force of a charismatic personality or serendipity. One great myth about innovation is that it is an arbitrary, unplanned inspiration. The truth is, innovation can be fostered, cultivated and even generated through best practices. That is exactly what an IMS is, a collection of best practices that cultivates innovation.

Most companies are very adept at addressing H1 activities. However specific H2/H3 activities seem very “fuzzy” and undefined. If you are ready to increase your top-line potential with new opportunities, consider implementing an Innovation Management System, then you will have better insight into next year’s growth numbers!

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