

Lessons from the trenches:
Discipline for growth
Position for the future

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Five categories of companies

- o **Product innovators** – **Grow the top line** of their income statement without blowing up their cost structure. Can manage continuous product innovation and own intellectual property or have proprietary knowledge.
- o **Process innovators and global competitors** – **Manage** the middle of their cash statements and ride their product catalogs. Have deployed IT to tighten their value chain. Developing global supply chain.
- o **Lifestyle firms** – Goal is not growth but owner's control and earning target income. They are **not-profit-maximizers**. Frequently have no intellectual property or proprietary competitive advantage.
- o **One trick ponies** – **Commodity business** dependent on a single business or production relationship.
- o **Dead and dying companies** – **Job shops** in auction markets; victims.

Firm Type Competitive Position	Advanced	Progressive	Struggling	Disadvantaged
Product Innovators	<ul style="list-style-type: none"> ○ Standard setters ○ Manage innovation ○ Own IP ○ Cost controls 			
Process Innovators		<ul style="list-style-type: none"> ○ Flexible strategy ○ Manage middle lines ○ Global value chain ○ Adaptive with culture of continuous improvement ○ Purchase innovation 		
Lifestyle Businesses		<ul style="list-style-type: none"> ○ Control oriented ○ Adaptive hierarchical management ○ IP or customer focus ○ Not growth oriented 	<ul style="list-style-type: none"> ○ Control oriented ○ Reactive hierarchical management ○ No IP ○ Not growth oriented 	
One-trick Ponies			<ul style="list-style-type: none"> ○ Commodity product ○ Reactive/Fighting fires ○ Gridlocked-hierarchical management 	<ul style="list-style-type: none"> ○ Do not see opportunities ○ Disengaged-heads down ○ Price is all they have
Dead & dying companies				<ul style="list-style-type: none"> ○ Commodity products in an auction world ○ Cannot invest in themselves

Lessons

Strategy, product innovation and performance improvement recurred consistently throughout the analyses

Key issue	Discussion	Importance by firm size	
		SME	Large firms
Strategy	Business strategy, ability to assess new markets and new operating models. SMEs: Challenge is formulation Large firms: Challenge is implementation		
Product innovation	Skills for product innovation appear to be critical, particularly funding, management, and technical skills.		
Performance improvement	SMEs: Continuous improvement from an operations perspective is critical for competition as the market changes sales and services.		

Key:  ←————→ 
Low High

Lessons

Six lessons for small and mid-sized businesses

1. Small business operators need to work *on*, not exclusively *in*, their businesses
2. Middle line cost containment is an operational requirement
Necessary for growth; not sufficient for survival
3. Lean and anorexic are not the same thing
4. Top-line revenue growth coupled with proprietary knowledge (process, design, brand, customer knowledge) is key to success
5. Understand what total factor productivity means:
Value-added per hour worked
6. Understand the connection between productivity, income statement and brand;
Productivity is where top and middle lines come together

Innovation—language and definitions

Three dimensions of innovation and two types of innovation

Dimensions

1. **Process**: (production & procurement) tied to the middle lines of the income statement
2. **Product**: tied to the top line of the statement
3. **Value proposition** and the customer

Types

- o **Technology push**: Tends to create products and markets (market creating)
- o **Technology pull**: Tends to refresh and reinvigorate existing products (market driven)

Innovation

Three results of innovation

What is the economic or competitive impact of the innovation on the marketplace?

- o **Epoch-making**: creates a new economic system of markets (or an eco-system) that restructures society; frequently technological in nature and results in **technology-push** fueled burst of innovation
- o **Disruptive**: Clayton Christensen's notion where new product kills existing products and the companies that make them. Frequently **business model innovation** using off-the-shelf technologies
- o **Sustaining**: Strengthens existing products and companies; tends to be customer focused and refreshes or renews the product by *pulling new technologies* into the product

Innovation

Keys to business innovation

- o Either born with the innovation—the core business idea;
Or the firm develops a continuous innovation culture
- o Root of most innovations comes from existing competitive advantage, market knowledge or business relationship
- o Most innovation failures are business failures not technology failures

Four rules for getting it done

1. Need best-practice process management in place
2. Innovate incrementally
3. Doug Hall: fail fast, fail cheap, fail often—contains costs
4. Voltaire: *The perfect is the enemy of the good*

Innovation

Innovation is a way of thinking and a way of managing

Two forms of business death

Quick: The product is made obsolete (technology, regulation, design, fashion or taste)

Slow: Competition increases and margins erode as product ages
What happens to cost structures as the product ages?

Tyranny of customer focus

Existing firms rarely come out with disruptive products that kill off their core product. Why?

Innovation imperative—Innovate or die

Management must be schizophrenic

Work on sustaining innovation while paying attention to disruptive forces

If you are not, then:

Know when to hold 'em; Know when to fold 'em

Know when to walk away and know when to run

You never count your money, when you're sittin' at the table

There'll be time enough for countin', when the dealin's done

Every gambler knows that the secret to survive is

Knowing what to throw away and knowing what to keep

The Gambler, 1978, Donald Alan (Don) Schlitz, Jr.

Know when and if you can't invest, when to sell the business

Why do large firms purchase their innovation and talk about open innovation systems? Should small firms follow their example?

1. Impact on balance sheet—requires scale
2. Risk and the time value of money
3. Managing model cycles within the product cycle—frequently faster than the decision making cycle of the corporation
4. Managerial incentives
 - o Supporting hierarchical overhead cost requires volume

Successful competition

Understand the connections between the six fragments of the business and competitive advantage

1. Headquarters/command and control
2. Administration/back-office
3. Research development and product deployment
4. Production/procurement
5. Distribution/logistics
6. Customer care/satisfaction

Three lessons:

All are part of the customer's experience

All could be part of the firm's competitive advantage

Each function is a business fragment—a business activity whose location in the supply chain (in-sourced or out-sourced) and geographic location is strategically determined

Successful competition

Competitive advantage exists in the income statement

Find it

- o Where does your competitive advantage lie?
 - o Gross revenue: the top line
 - o Expense items: the middle lines
 - o Labor and talent
- o Companies good at cost containment are frequently bad at managing growth
- o Implication: they purchase growth, change culture or slowly become a one-trick pony

Challenges for companies

How do you maintain profitable innovation?

1. How do you organize and manage your business to sustain constant innovation?
 - o A form of continuous improvement
 - o Need to work *on* your business as well as *in* your business

2. How do you manage your business to finance innovation?
 - o The challenge: deliver top-line revenue growth without blowing up costs
 - o What is the correct finance structure to support innovation? Venture and angel capital is not right for most SMEs or for most instances of regional economic development

Your homework:

Find your category; Determine your strategy; Control your business

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