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STRATEGIES FOR GROWTH

# DOES THIS DOG HUNT?

## How to Know if That New Opportunity Will Work in the Marketplace

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# DOES THIS DOG HUNT?

## How to Know if That New Opportunity Will Work in the Marketplace

By Ed Lahue

The new business development personnel of your company have been saying for months that the latest breakthrough opportunity is the next big thing. The management team is upbeat and buzzing. The marketing department is fired up and ready to launch the sales campaign.

But you're beginning to wonder if this is the right opportunity for your company. You like the concept, but will it make money in the long run?

Does this dog hunt? Or in other words, have you gone beyond the traditional way of looking at your new opportunity, which simply includes sales and profit projections?

**More Than Dollars, It's Also About Sense!**

Obviously it is important that any new opportunity make money. But the question many firms don't ask themselves is does it make sense—strategic sense – for the company? In other words, how does this new business opportunity fit into the firm's overall business strategy?

This assumes**,** of course**,** that your strategy is articulated well enough to provide this kind of direction *(see my article titled "Sure You Have a Vision for Your Company, But What Will Your Staff Do On Monday Morning? Great Strategy Links Vision to Action")*.

If your business strategy is simply "to make money," and if you think all that is needed is sales and profit projections, you need to be cautioned that success is probably unlikely.

A business strategy is designed to provide the direction for growth for your company. The new opportunity is only one way in which it could be fulfilled, not the other way around. In order to determine if this new opportunity is indeed the right opportunity, answering these questions may help you determine if your "dog" will indeed "hunt:"

- How well does this new opportunity leverage your core competencies?
- Who are the major competitors in this market?
- What is the anticipated competitive response to entering this new market?
- What is your approach/attack to obtain a substantial market share?
- Is there an identifiable market segment that you can own both in the short-term and long-term? Is it defendable?
- Can you do it operationally?

  

## A Real-Life Example

One firm we have worked with in the past learned a valuable lesson when they did not follow the principles of assessing their new business opportunity. For the purpose of this example, we will refer to them as ABC Company.

ABC Company provided product X. Various formulations of this product were used widely in a number of applications. ABC Company had a strong primary market for their products. We'll refer to that as Market 1. Market 1 was relatively predictable given its three-year product life cycle and long design time.

One day, the CEO of the ABC Company met the CEO of a company in a different market, which we will call Market 2. The two focused on the existing product application and saw an opportunity to do business in a new market, Market 2. They only saw an opportunity to "make money!"

It wasn't until the ABC Company was well into the middle of the Market 2 entrance that a major hurdle was discovered – a short product life cycle. Remember the ABC Company had been successful in Market 1, which moves fairly slow at a three-year product life cycle. Market 2 moved very quickly at a product life cycle of six months! This changed everything operationally for ABC Company.

This was further complicated by the fact that most of the production of Market 2 products was done in China, where the ABC Company did not have any operations. Not to mention, ABC Company could not speak Chinese!

So, does this dog hunt?

Obviously this case study illustrates the importance of understanding the market opportunity relative to your firm's core competencies. ABC Company never should have pursued Market 2 based only on the sales and profit potential. They did not do their homework fully and had they done so, ABC Company would have avoided Market 2 because it did not fit their model.

## Preserving or Extending the Core

In addition, the bigger strategic question is: How does the new opportunity help you focus and preserve your core business? Or if this opportunity is outside the core, how far out is it? Adjacent opportunities can be extremely positive, but the majority of firms who move outside their core business fail unless they have something compelling that can be extended.

  

There are many reasons for a firm to gravitate to these "beyond the core" business opportunities. The primary reason is the increasing pressure for growth. These could be firms in slow growth industries, where they have not segmented the market, mining it for growth, or firms that are near the end of the fast expansive growth plans.

This occurs particularly with geographic expansion. Once a firm runs out of geography to expand, it may haphazardly look for adjacent opportunities such as other channels or other customers. You must be careful, however, in making sure these adjacent opportunities can be positive if you decide to move outside your core business or you will be doomed to failure.

Many firms are so busy looking for greener pastures they miss many opportunities that are in their own "backyard." The most successful companies exhaust all the opportunities that preserve their core business and even strengthen and defend it, before going beyond.

## Three Growth Opportunities

Listed here are three broad categories for growth opportunities which have merit in their own right. The farther you go down the list, the higher the risk and higher the reward if successful.

- <u>Growth Within Your Core</u>
  These are growth opportunities that are within your "sand-box" or business boundaries. They are usually the ones you can easily leverage and will be the most successful, but they are the hardest to identify. A great example is a new product or service that is developed for your current customer that's also within your current business boundaries.

- <u>Growth By Extending the Core</u>
  These are adjacent opportunities that expand beyond your business boundaries. They can be very tricky, especially if a firm attempts to change more than one variable, such as type of customer, supply chain, channels, geography or related market segments. Many firms have failed because they have attempted to change too many variables at one time, i.e. new products to new customers.

  Chris Zook and James Allen recently published results of their research in the Harvard Business Review* which focused on analyzing 181 adjacency moves that took place between 1995 and 1997. The six types of adjacencies they discovered successful companies used to outperform their competitors include:

  1. **Expand along the value chain.**
     DeBeers extended its diamond business from wholesaling into retailing. This is one of the most difficult adjacency moves.

  2. **Grow new products and services.**

  

IBM moved into global services.

3. **New distribution channels.**
   EAS, a leading sport supplement company, moved from niche specialty nutrition stores into the mass market.
4. **New geographies.**
   Vodafone expanded from the United Kingdom.
5. **New customer segments.**
   Charles Schwab targeted high-net-worth individuals.
6. **Moving into "white-space" with a new business built around a strong competency.**
   American Airlines created the Sabre reservation system.

- <u>Redefining Your Core Business</u>
  This occurs when you need to reinvent your business due to major market shifts or restructuring. A great example is the energy companies' attempt to redefine their core business in the face of deregulation.

## So What Should ***<u>Your</u>*** Dog Do?

In summary, make sure you are strategic and "the dog hunts" based on first preserving your core business. Cautiously move beyond the core to adjacent opportunities where it makes strategic sense for your core strength to be extended by changing only one variable at a time. 

* "Growth Outside the Core" by Chris Zook and James Allen, Harvard Business Review, December 2003.

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Ed Lahue is an accomplished business professional with over 20 years experience in identifying new growth opportunities for his clients. He has successfully marketed several brand name consumer products as well as developed winning business strategies for major businesses and industry.

  