A Case Study in New-to-the-Company Growth

Background

Executives of a $10 billion natural resource company needed to grow beyond their core franchises. Most of the company's franchises were commodity businesses which were growing at the rate of inflation. Executives intended to get into value added products early in their life cycle. The company has a history of acquiring value-added businesses and then watching as competitive entrants eroded the price premium and equity market valuation.

This particular growth project was started in 2003 by a senior manager who was excited about a new technology. He convinced the CEO and COO that this was a golden opportunity to organically grow a value added businesses. The CEO and COO became quite supportive.

Moving forward one year, in 2004 the Company broke with past traditions and acquired a technology start-up for paid $20 million, an amount well below most capital projects. The start-up came equipped with a pilot plant, two operators and the founder, who was also the technology expert. The Company started a process of financial projections based upon market assumptions while it continued to develop the technology in the pilot plant.

Moving forward another year, in 2005 the senior manager who had championed the technology left the Company. The new venture was assigned to a business executive, who was also running a $5 billion division, the Company's largest. A team leader, who had both a strong interest in building a new venture and some maverick blood, was assigned. A part time marketing person was added.

The Business Unit Vice President saw the venture as a distraction from growing his core business. The new venture was projected to add only 1% growth to the core in its first years. The CEO and COO continued to signal their enthusiasm. The project became caught in a go-nowhere cycle of detailed analysis.

The new CTO hired INNOVATE in 2006 to break the cycle and advance the project to commercialization.

What happened next

I advised the CTO to de-couple the venture from the operating business. I recommended that he form a Growth Board to manage and review new platforms outside the formal organization structure. The Growth Board, consisting of the CEO, COO, CFO and CTO, started to meet quarterly with this project as their first. There were additional technology projects but none were as advanced towards commercialization. The CTO asked for the role of executive champion and to have the project report to him. This was acceptable to the Business Unit VP. These were the initial changes.

I worked with the project team to shift it from a promising technology to a business start-up. Within 3 months, they had a strong business concept. It was well communicated and accepted by the members of the Growth Board. They explicitly asked the Growth Board, "If we succeed in elaborating all of the key elements and everything proves out, will we get your approval?" The senior executives had never been asked this question.

This venture was the point project for establishing a process for new platform growth. The Growth Board had no template and no track record. The team leader and I authored a series of talking points, which I reviewed with the Growth Board. We were advancing their thinking just-in-time for each 3 month review

During months 4-6, the team elaborated the total business concept, including target markets for the 1st stage as well as markets that would not be initial targets. The team began working with lead customers, showing them prototypes and gaining insights regarding what would have decision makers change their buying patterns. Changes to the product were made and tested with those lead customers. The team began to identify and manage strategic risks in a very transparent way. Executives were queried to understand their views on both strategic and operational risks. The likely responses of competitors were being anticipated. The venture now projected profitable business scale at $75mm to be reached within 3 years after launch. The outlook for the venture had improved. Capital spending was to be staggered against actual sales.

In months 7-8, the team validated the target market, competitive positioning and channels of distribution. They began experimenting with different customer messages to ascertain which would have the greatest impact on buying behavior. They determined that they would need to utilize different distribution channels from the core business.

Throughout their reviews, the CEO and COO had been positive. While there were indications that the traditional processes and thinking would one day overtake the new venture, the meetings went surprisingly well. A critical bridge between the Growth Board and the venture was the CTO, acting as executive champion. He immersed himself in the business, met with potential customers and was a strong yet objective advocate. The senior perspective he brought to the team was invaluable.

The venture team was given the go-ahead for a capital review stage-gate by the Growth Board. The finance people started their traditional, formal evaluation. The project spent 3 months in financial and business plan reviews by people who were unfamiliar with both market and start-up realities. It appeared to the team that this was completely non-value added work, and that their progress had regressed by 1 year. In the end, the financial people signed off on the business and financial plans. This project exceeded the hurdle rates for the company. The team had addressed every issue posed by the staff reviews. The Growth Board had hoped that their standard capital review process would be sufficient for this new venture. They were prepared to make changes but were pleased that none were necessary. The venture went to the Growth Board and received capital approval.

They entered the construction phase of the business. A brownfield plant in their target geography was purchased also a first for the company. The pilot plant began to make limited production runs for lead customers. The venture started to build their organization with an emphasis on hiring customer support people who were familiar with the new channel of distribution. Engineering for the plant was to be performed by the Engineering Services division of the Company, which had been involved throughout the project in costing the product and capital. Building on conversations with customers, the team developed insight into how to make a compelling case to decision-makers. The iterative design of the buying process was coming together. The venture team began to build a user community into the fabric of the offering. The user community would convey through word of mouth many crucial selling points.

Current Reality

It is now 18 months since the Company shifted to a Growth Board based approach, and the venture is on track for taking large scale orders in 3 months. This project has become a reference point for other projects and the team is sought out for advice. Now under consideration by the Growth Board is a New Business resource center. Its directive would be the formalization and infusion of those competencies and processes necessary for systematically accomplishing new to the company growth.

