Managing Middle Market Innovation: What the Best Companies Do

Michael Leiblein
An international association composed of **Academics, Business practitioners, & Consultants**

Develops and disseminates insights on the strategic management process and fosters contacts and interchange around the world.

Organized around specialized interest groups

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**Agenda:**

- Introduction (Tom Stewart, Executive director of the NCMM).
- Organizing for Innovation (Michael Leiblein).
- Simple Rules: How to Thrive in a Complex World (Kathy Eisenhardt)
- Bill Saporito: Innovation Strategies
  - (Trish Gorman, Jeff Macher, Andy Williams)
- Beyond Competitive Advantage: How to Solve the Puzzle of Sustaining Growth while Creating Value (Todd Zenger)
- Tom Stewart: Magic Beans—growth that keeps growing
  - (Michael Lewis and Hart Posen).
- Networking Reception
What comes to your mind when you hear the word innovation?

- Pretentious words?
- Different Actions or Outcomes?

It is more useful to consider how you create, capture & deliver value

- Creating Value
  - Actions to increase benefits and/or reduce costs to society.

- Capturing Value
  - Actions that affect the portion of value that is seized by a party.

- Delivering Value
  - Assembling & coordinating action to deliver new value.
Center for Innovation Survey

How can middle market firms create and capture more value?

A Sample of 550 Middle Market Firms

- $10M to $750M+ Revenues
  - 59% between $10M & $100M.
- Wide age range
  - 55% founded > 1980.
  - 20% founded > 2000.
- HQ in 43 States
  - California, Florida, NY, Texas.
- Private / Family Owned
  - 80% privately owned.
  - 48% family owned.

The survey reveals differences in more (less) successful middle market firms

• MM companies that rate their firms as very innovative outperform rivals.
  – 43% of “very good” innovators increase revenues by > 10% / yr.

• These companies invest & organize differently (than others).
  – Invest more aggressively.
  – Allot more top management time.
  – Utilize more formal tools.

Wide variation in middle market firm “innovation” investment

* Leiblein & Miller, 2013 NCMM white paper. Innovation spend combines all “innovation” investment.
** Leiblein, 2015 NCMM white paper.
Last Innovation Project by Type

- 28% Existing knowledge, New market
- 27% New knowledge, Existing market
- 40% Existing knowledge, Existing market
- 5% New knowledge, New market

Investment, Revenue Growth, and Profitability by last Project Type

- Insufficient data for analysis
How to place a few “innovative” bets?

- Firms with few projects & narrow portfolios cannot easily diversify risk.
- So, how can you make decisions on these sorts of “risky” projects?
- How does the way you organize effort affect value creation & capture?

How do Middle Market firms differ in their efforts to create value?

- Greater involvement from internal teams, users, and c-suite is associated with perceived innovation success.
- Use of external agencies is associated with high growth (>10% /yr).
These base results are stable across other middle market contexts

<table>
<thead>
<tr>
<th></th>
<th>Senior Mgmt</th>
<th>R&amp;D Officer</th>
<th>Marketing Officer</th>
<th>Internal Committee</th>
<th>External Committee</th>
<th>External Contest</th>
<th>External Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>All (536)</td>
<td>53.50%</td>
<td>61.60%</td>
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<td>Large (40)</td>
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<tr>
<td>Health (77)</td>
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<td>18.70%</td>
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<tr>
<td>Food Manuf. (64)</td>
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- 536 observations, Leiblein 2013 NCMM survey.

How do Middle Market firms differ in their efforts to create value?

- Tools such as brainstorming, social network data mining, or traditional market research.

- “A third of MM executives believe formal tools are influential in the idea generation process.”

Ideation & crowdsourcing techniques are positively associated with high growth (>10% /yr).
How do Middle Market firms differ in their ability to select projects?

- Many MM firms perceive CEO and CFO as critical to innovation success.
- Customer feedback as well as CMO and CFO involvement is positively associated with high growth (>10% /yr).

Again similar to others
Who Selects Innovate Ideas for Funding?

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* 536 observations Leiblein 2013 NCMM Survey.
How do Middle Market firms differ in their ability to select projects?

- "The majority (51%) of middle market firms do not use formal decision making tools at all."
- Our survey indicates only the fastest growing firms benefit from the use of formal tools to select innovation projects.
- Few firms report using formal processes to elicit user feedback.

How do Middle Market firms differ in their ability to deliver value?

- Greater involvement from c-suite is associated with perceived innovation success.
- CEO, CMO & internal team involvement are positively associated with high growth (>10% /yr).
My POV
What’s Important

Don’t let efficiency crowd out innovation until it’s too late.

• Of course, maintain the core business ....

• Invest enough in experimentation to survive and …

• Include enough “new” projects in your portfolio to thrive.
There is no evidence associating the innovation intensity & growth

\[ Y = K^\alpha L^\beta (\text{Inno})^\gamma \]

Output (revenue) Capital Labor Innovation

- Fragile links between “innovation” investment & return.
- An alternative is to consider innovation productivity.¹
- Focus on resource allocation, decision rights, & organizational tools within (often private) MM firms.


Creating & Capturing value requires high-quality theory

- How are you generating ideas regarding which problems to attack?
- How are you selecting projects that allow you to capture value?
- Have you built an organization to effectively solve certain types of problems?
Use Appropriate Tools to Mitigate Risk

- Create experiments
  - to probe new markets and technologies.
- Stage investments
  - to increase flexibility while uncertainty resolves.
- Engineer call options
  - Small investments to learn without the obligation to proceed.

Top Innovators Deliver Value Differently than the Overall MM

<table>
<thead>
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<th>Top Innovators</th>
<th>Overall Middle Market</th>
</tr>
</thead>
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<tr>
<td>Resource Allocation &amp; Innovation Portfolio</td>
<td>More likely to invest in projects that explore new knowledge or markets.</td>
<td>More likely to invest to reinforce existing knowledge &amp; markets.</td>
</tr>
<tr>
<td>Formal Processes</td>
<td>More likely to use formal processes to generate, select, &amp; implement ideas.</td>
<td>Many do not have formal processes in place.</td>
</tr>
<tr>
<td>Management Involvement</td>
<td>C-suite involvement is significantly greater and broader.</td>
<td>There is a “left-tail” with very little C-suite involvement.</td>
</tr>
<tr>
<td>Open Innovation</td>
<td>More likely to include outside sources.</td>
<td>Innovation primarily conducted ‘in-house’.</td>
</tr>
</tbody>
</table>
I hope you’ll use the available tools to create, capture, & deliver value.

- “What you find is that there are a zillion ideas out there from an awful lot of innovative people, but (they) may not have the wherewithal to bring their ideas to a bigger audience … So I think *it’s less about trying to generate a whole new set of ideas and more about bringing all the good ideas together, prioritizing them, and giving them the impetus they need to have an impact on a scale larger than they do now.*”
  – Sally Ride, 2012

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Contact Mara McKee for more information. Mckee.136@osu.edu

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*Bloomberg Businessweek*

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Daniel D. Oglevee, EMBA Academic Director
How much are you investing to create value?

<table>
<thead>
<tr>
<th>R&amp;D* / Sales $</th>
<th>Industry Sub Sample</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>~1.7%</td>
<td>Consumer</td>
<td>Booz, 2014</td>
</tr>
<tr>
<td>~10%</td>
<td>Healthcare</td>
<td>Global 1000</td>
</tr>
<tr>
<td>~9%</td>
<td>Computing</td>
<td></td>
</tr>
<tr>
<td>10.2%</td>
<td>Healthcare (77 firms)</td>
<td>Leiblein &amp; Miller, 2013</td>
</tr>
<tr>
<td>14.9%</td>
<td>219 IT (219)</td>
<td></td>
</tr>
<tr>
<td>7.0%</td>
<td>Nonfood Manuf (87)</td>
<td></td>
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<tr>
<td>12.1%</td>
<td>Professional Service (94)</td>
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* These studies combine all “innovation” oriented investments.

How do Middle Market firms differ in their efforts to create value?

- Consultants & universities are the only source positively linked to observed growth.
Don’t forget your role as the “designer” of your organization

• You’re not just the captain, navigator and engineer …
• … but also, the designer.
  – Problem framing & contextualization.
  – Communicating a logical mental model.
  – Supporting coherent action.

Choose individuals and tools that fit your theory for creating and capturing value

If dynamic demand & stable technology
• Gather consumer insights and refine segmentation
• CMO, Users, the Crowd, & others able to identify unarticulated consumer needs hold reverence.
• Design Thinking, Ideation, and “jobs to be done” tools.

If predictable demand and modest technological change
• Focus on incremental changes and competitor intelligence (e.g., Market Back).
• CFO, Inter-disciplinary teams, and others with competitive intelligence hold reverence.
• Tools that focus on fast & efficient project execution.

If predictable demand and dynamic technology
• Must understand and be able to map emerging technologies and analyze trends.
• CRADO and others able to map emerging technological trends and manage technical risks hold reverence.
• Portfolio management & real options tools.