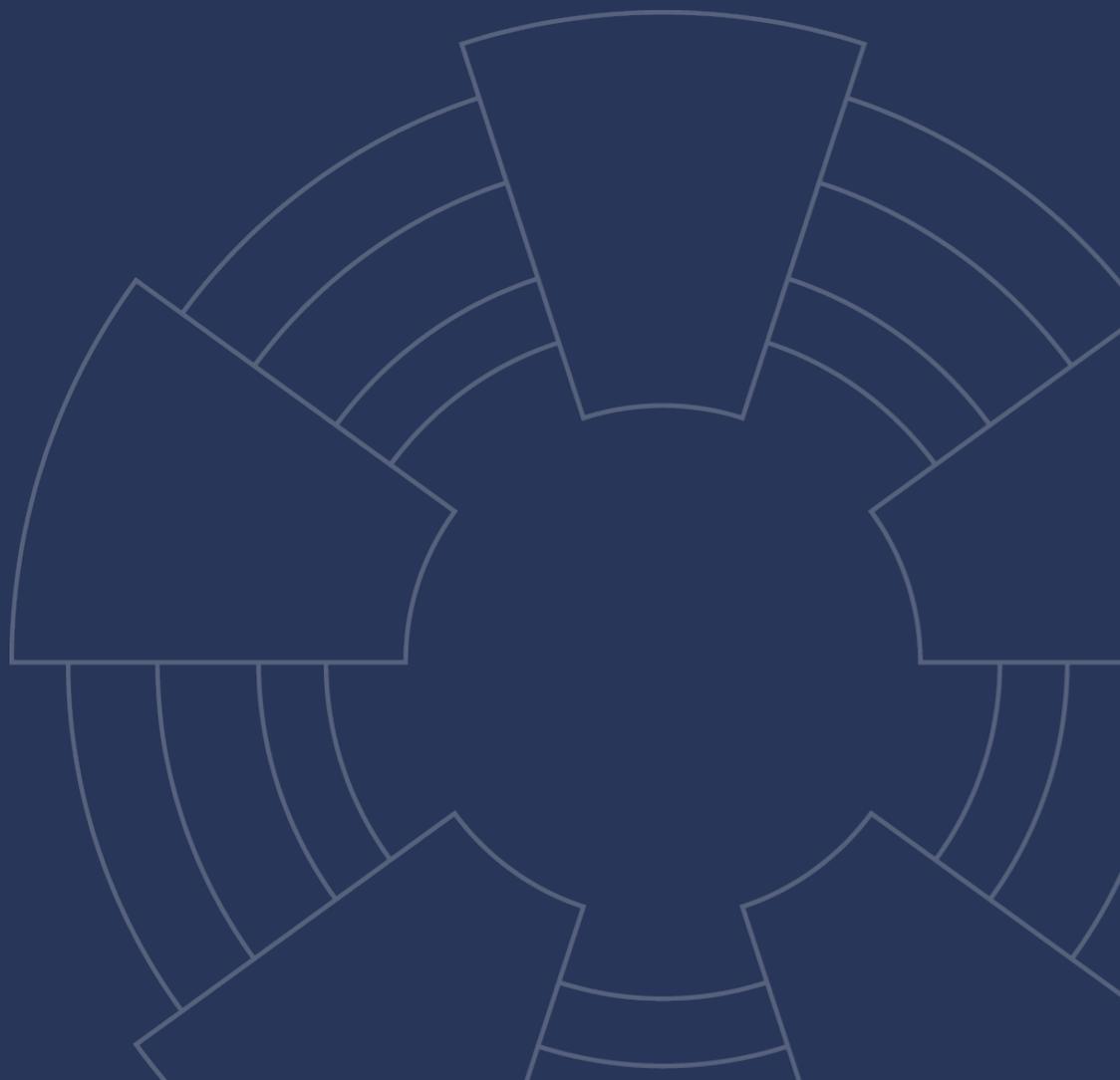


**Are you making the most of your opportunities to grow?**



# Are you making the most of your opportunities to grow?

*Companies worldwide recognize the importance of organic, sustainable growth. Harvard Business Review describes successful growth — "... most sustained, profitable growth comes when a company pushes out the boundaries of its core business into an adjacent space..."*

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Many executive teams are looking for growth beyond their core business.

Leveraging existing capabilities in new ways, introducing existing technologies into new markets or using current strengths in other creative ways can generate new business. This is known as **adjacency-led growth**. Published research by Bain Consulting has demonstrated that this type of growth strategy accounts for 75% of all attempts to grow. Success rates vary extensively. Key success factors include:

- Develop multiple perspectives on your business. This will help reveal new adjacency opportunities. Capability analysis and customer insights are powerful tools in helping to develop these new viewpoints.
- Be prepared to supplement your competence and expertise in order to identify and deliver adjacency-led growth.
- Ensure that you have a mechanism for objectively assessing feasibility, scale and likelihood of leadership.
- Most important: remember that diversification is not necessarily adjacency-led growth.

Companies pursue growth through adjacency opportunities for a variety of reasons:

- Desire to move beyond the core business in an organic manner
- Projected drop in sales of core business
- Projected constraints of the current business
- Shift in vision or strategy
- Disruption to the business
- Pressure from stakeholders
- Changes in management

Why is finding new ways to grow an established business so challenging? Companies are built to do things the way they have always done them. The strength of the current business heavily influences how potential growth opportunities are conceived and perceived. Frequently companies fear trying to fix what isn't broken or venturing beyond familiar ways of working.

Nike, DSM, 3M, and Apple are popular examples of companies that have grown in previously unfamiliar markets. But, leaders can be fooled by their results. In our experience, attempting to precisely copy what someone else has done rarely produces similar results. A structured approach that balances the creative elements for innovation-led growth with the discipline required to achieve a successful implementation help companies to their own, unique success.

Building new growth opportunities involves a combination of strategic thinking, market insight and the implementation of good ideas. All of which require differing skillsets and engagement from across - and often outside - the organization.

Success is never guaranteed, but you can swing the odds significantly in your favor.

### Better Questions = Better Opportunities

A manufacturer of natural sausage casings was looking for growth opportunities at the height of the Bovine spongiform encephalopathy (BSE), commonly known as mad cow disease, crisis in the UK. Its core business was under pressure from events outside of their control. Initially they asked:

*"Where else can we sell sausage skins?"*

This limited perspective did not lead to new opportunities. We reframed the question into:

*"How can we exploit our ability to take variable consistency natural raw materials and manufacture reproducible and consistent (food approved) products?"*

This enabled broader thinking about what might constitute an adjacency and led to products in confectionery/OTC, healthcare and packaging—all of which fit under this broader definition of the business.

## Achieving adjacency-led growth

Finding your potential adjacencies is a more strategic approach to innovation. There are many approaches to strategy development. Henry Mintzberg recommends *'Ten Schools of Thought about Strategy Formation.'* These schools of thought represent a set of perspectives from which you can analyze your business. Each stresses a unique way of looking at the business. By adopting several different viewpoints, you will open your business to new possibilities. We have developed a number of tools that enable this multiple perspective thinking. These approaches are designed to challenge existing boundaries for your business:

- **Capabilities perspective** - Understanding your strengths.
- **Market position and business models** - Generalizing your product or service offering: what, how, where and why you offer it.
- **Testing and refining new opportunity hypotheses** - Creating a holistic picture of an opportunity instead of "Let's get into X" or chasing what others are doing.
- **Understanding the impact of evolving trends** - In the market, regulatory issues or technology
- **Developing new insights** - Understanding emerging customer needs and behaviors.

Starting from potential adjacencies, you can begin to evaluate opportunities for innovation-led growth. This often requires external input, since the focus of most of your internal expertise is going to be your current business. Identifying and describing these opportunity spaces requires both insight and careful strategic analysis.

## The challenge for innovation-based business growth

How do you find attractive adjacencies for your business to pursue? Adjacent opportunities vary enormously. They include, for example: geographical growth (common in consumer goods), product extensions into adjacent functionality (common in healthcare), integration and convergence (common in consumer electronics), and M&A (virtually everywhere). Once an adjacency-based growth strategy has worked and has been documented in a well-publicized case study, it seems obvious. At the beginning of the journey, things are rarely as clear.

Identifying the right adjacency for your company and then implementing a growth plan (likely with some innovation of product, service or business model) is never a sequential and straightforward process. It is important to recognize this and work accordingly.

A key component of this work is an understanding of what constitutes an adjacency. This has proven difficult for many companies. Consequently, we have codified a set of four approaches. Each approach uses a different starting point for the analysis, and this enables us to uncover more opportunities for innovation. Every company exists in a different context and marketplace, making flexibility essential. The four approaches are outlined in the following table.

 <p><b>Know Your Boundaries</b></p>	<p>Defining boundaries helps to shape how you think about what might constitute an adjacency, i.e. what's on the other side of the boundary...</p> <p>... which helps to relate new opportunities to your current business - and identify 'white spaces' to address</p>
 <p><b>Trends &amp; Technology Timelines</b></p>	<p>Thinking about what is changing and what might be possible...</p> <p>... and what opportunities that might arise from the convergence of emerging market needs and new technology</p>
 <p><b>Building from a Hypothesis</b></p>	<p>Putting a better 'shape' around something that seems like a self evident opportunity</p> <p>Turning a management slogan - i.e. "let's get into medical devices..." into a well-described opportunity</p>
 <p><b>Functions &amp; Markets</b></p>	<p>What are we good at, what function do we provide, and what customer segments do we serve?</p> <p>How can we extend this function into other markets?</p> <p>What are some 'white spaces' for you customers (or potential customers)?</p>

A couple of examples of interesting adjacencies that clients have identified are described below:

- Move from personal care and coatings chemical products to an application in agrochemicals in soil modification. The adjacency was developed through narrowing down the 'agrochemicals' sector (*'Building from a Hypothesis'*), applying the properties of the chemicals that the business provided to its current markets, and identifying a similar need within agriculture (*'Functions and Markets'*, plus a small amount of *'Trends and Technologies'*). The market opportunity identified was significant, and fit with margin and volume expectations of the business.
- Expanding a food products supply business into new areas. This was achieved by using multiple perspectives of *'Know Your Boundaries'* in order to tease out adjacencies in:
  - Product Usage Location (where their products might be used outside a restaurant)
  - Day Part (what time in the day), and
  - Product format (what the product looks, feels and tastes like).

Adjacencies identified included some that were familiar and some that were a stretch for the organization. A portfolio of opportunities is being built on the prioritized set of adjacencies.

Once you identify candidate adjacencies, you will need to develop deeper understanding, since these adjacencies will often have key differences from your current core business. This understanding and the insights you can extract from it are the basis for innovating new growth opportunities. It is likely that you will need to supplement in-house knowledge with external subject matter experts who will help build requisite understanding - both in terms of technology and current/future market needs.

Constructively accessing external experts will give you a keener view into new markets and customers. Successful companies like Apple recruit from fashion, retail, healthcare and other industries to expand their view. Other companies address this through merger or acquisition. This is a costly step that is usually taken further down the path of maturity for a growth opportunity. Not all companies have the resources or the ability to acquire new businesses to access expertise but many companies also have difficulty utilizing external expertise. This is often due to:

- Preference to use own expertise and knowledge, which in turn leads to a short-sighted approach to the opportunity, and fewer insights
- Very limited perspective on what experts might be useful to help with generating insights and additional knowledge - there is a prevailing attitude of "only people who are involved in our business or markets will be useful..."
- Inability to actually build a new network of external experts. Many companies have difficulty identifying, qualifying and engaging subject matter experts that will be able to help them
- Highly transactional and contractual approach to engaging experts. This often results in potential experts either losing interest, or the engagement process taking far too long

At this point, structured tools will help to identify key questions and uncover opportunities for insightful innovation. This additional detail will help to build internal commitment to implementation and will allow you to move your growth opportunity(ies) into a space where it is more accessible to the whole organization.

The adjacency approach aims to connect new opportunities to your current business. You will understand why this new growth area is relevant to your current business, which in turn makes successful implementation much more likely.

The next challenge is turning these opportunities into real innovations. In our experience, this requires insight, innovation and technology, as well as the telling of a compelling story.

Developing the growth narrative around innovations requires sketched outlines, business model proposals, technology feasibility, and initial estimates of market attractiveness. It is a mix of creative and analytical processes.

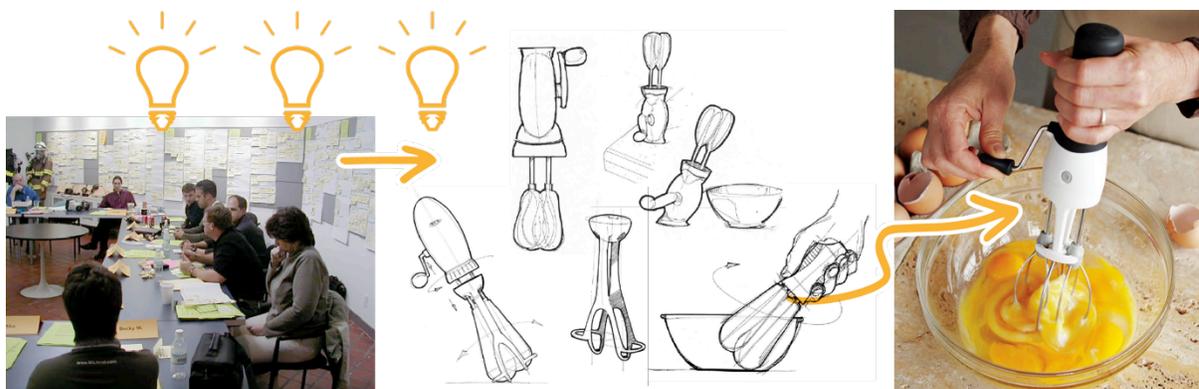
### Focused innovation

Once you have candidate adjacencies and insights into potential opportunities within them, the time has come to develop innovations that can have meaning and value for your business.

Early stage ideas are often incomplete and yet subject to assessment and prioritization in a growth portfolio planning process. Building a large number of ideas into a funnel and winnowing them down becomes a replacement for innovation that is relevant or truly meets a need. This is not a good use of precious resources.

The 'open funnel model' proposed by Henry Chesborough was an improvement, but more in the context of monetizing ideas externally. The best approach is to build from well-constructed opportunity spaces and focus your innovation efforts where they will give the greatest return.

Focused innovation combines technical and commercial insight. By understanding the needs to be satisfied and moving quickly to concepts, each idea is quickly made more concrete. By moving quickly into idea prototypes (such as journey maps, low fidelity models, etc.) very early, it is possible to put more meat on the bones of the initial adjacency-led growth opportunity. This allows the business to realistically communicate ideas and build commitment to a more specific opportunity.



A cross-discipline team is crucial to good innovation. Involving external experts here as well can present difficulties for some companies, but if you are working outside your existing markets, and you have resource limitations, then external experts will be essential.

Free form brainstorming is too diffuse to produce reliable results. By carefully defining need and context and leveraging external subject matter experts, you will get more targeted and relevant innovation. Structure provides strong guidance on the characteristics of the adjacency which in turn helps to define questions that inform the innovation process.

Strategic adjacency thinking converts a potential flood of unfiltered and often repeated ideas and shifts the focus onto the important questions to answer. Furthermore, visualizing and building concepts is an important part of developing a concrete statement of the value each potential adjacency.

## Common Mistakes

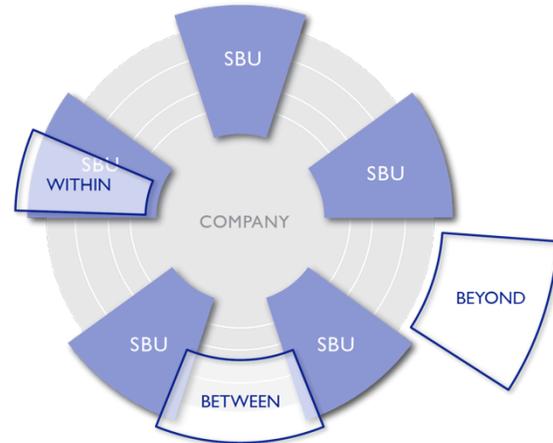
There are many ways to get this kind of growth wrong. Some of the common ones we encounter include:

- **Building on top of a weak core business** – this is corporate avoidance behavior. That is, focusing on something new in the hope that it will fix the problems of the current business.
- **Moving into a new business that has insufficient relationship to the core business** – this might not reveal itself until the company has committed to expensive and time-consuming business development or acquisition.
- **Poor alignment amongst executive team around the growth plans** – is often a result of how an adjacency is framed in the context of the current business. It is fatal to your chances of achieving desired growth.
- **Poor analysis of opportunities to build growth** – once an adjacency is articulated, it takes a lot of hard work to develop insightful and well-qualified opportunities for growth. Short cuts do not usually work out well.
- **Misunderstanding market dynamics** – this is always a challenge when moving into a new business. Usually the dynamics are framed in terms of your current business. This can lead to incorrect assumptions about the market and fatal mistakes, such as an inappropriate business model.
- **Too many unwritten assumptions** – you will always have to make assumptions in any adjacency-based growth business. The key is to make sure that they are as explicit as possible in order to test and revise those assumptions as you uncover new information.

## Structural Challenges

Once you have identified commercially attractive adjacencies and developed promising innovations, you are still challenged with turning those opportunities into real growth. Working with the current business is the most common approach. Establishing incubators or venture groups is another solution. There are three different ways to structure growth programs within an existing business organized around Strategic Business Units (SBUs).

- **Within** the SBU. Growth based on a reframing of markets and technology solutions.
- **Between** SBUs. Leveraging of common attributes to identify and extend the SBU into new markets, or to transfer new attributes into existing markets.
- **Beyond** SBUs. Building growth platforms outside of the current SBU structure of the organization - leading a new SBU.



Each approach contains unique challenges. All are possible, and there is usually one that will work best within your organization. Acknowledging these differences will help organizations to make better choices. All too often, executives are puzzled by why 'agreed' growth initiatives 'hit the buffers' - usually, the reasons relate to a mismatch between the implementation pathway and the challenges presented by each structural approach described above. It is our experience that whenever we explain this model to a client, they immediately recognize examples from within their own organization.

## Combining strategic and operational innovation

We combine the competencies of: **nu Angle**, experts that help companies connect brand direction, ideas, and technology for sustainable innovation; and **Bally Design**, a firm that helps companies identify customer needs and turn them into successful products and services for innovation-led growth opportunities.

We work jointly with companies to:

- Identify potential adjacencies that are relevant to their current business
- Establish advisory networks of external experts
- Define 'white space' opportunities
- Articulate ideas and concepts for addressing needs within these opportunity spaces
- Develop options for executive decision making including initial estimates of costs and business benefits



- Offer consulting services and support to help you understand what isn't working for you, how to frame your exploration of new adjacencies, and what it takes to create sustainable growth.
- Offer insightful techniques that stimulate new thinking around what constitutes an adjacency.
- Support client teams with robust tools that encourage creativity when required and discipline and structure when needed.
- Enable access to a wide network of subject matter experts that provide additional knowledge and know-how that is essential to exploit a new adjacency opportunity.

nu Angle and Bally Design discovered each other working for multiple clients at the strategic and operational end of innovation. We quickly realized that our complementary skills provided clients with the ability to identify adjacencies, understand the opportunities within those adjacencies and then develop innovations to create growth opportunities.

## Next steps

If you are wondering where your adjacency-based business growth opportunities are, and wonder why your business hasn't managed to take advantage of this approach, contact us - we can help: Diagnose what is blocking your company's move into growth opportunities.

- Kick-start your adjacency program with an initial adjacency identification work program - giving you the building blocks to move forward.

### Contact for further information

#### NORTH AMERICA

**Dr Peter Allen**

peter.allen@nu-angle.com

petera@ballydesign.com

+1 (412) 916 4328

**Randy Rossi**

randyr@ballydesign.com

+1 (412) 621-9009 x224

#### EUROPE

**Dr Steve Bone**

steve.bone@nu-angle.com

+44 7899 668492