

Growth Strategy: Where Does a One-trick Pony Go?

by Atilla Habip

In our consulting practice, we often meet with executives who are looking to grow their businesses in new directions. The new direction may be a new market or product, further penetration of current customers, an acquisition or collaboration, or any other way to grow the business. With small firms, there seems to be a pattern. They succeed with one technology or product. They may reach a certain size quickly, but growth eventually starts tapering off. While the execution challenges continue, management starts exploring new opportunities. The firm, now grounded in one area, wants to re-ignite the fire.

We call these one-trick ponies looking for a second trick. They are all around you, not only small firms but also divisions or business units of major companies. In fact, one almost never hears an executive talking about “killing” or “retiring” her business. We all want to grow, live long and prosper!

However, not everybody succeeds. What differentiates the winners? We will argue here that three conditions must be met for one-trick ponies to master the second trick.

A Clear Mission

This is not as simple as it seems. When you have one successful product, the business can be defined in infinite ways. Consider a company that makes a device used in heart surgery—its only product. Is the company in medical devices? Cardiovascular health? Surgery? Hospital supplies? We know of many firms who struggle with such questions, unsure of who they really are and who they want to be when they grow up.

A unique characteristic of successful firms is a relentless focus on their *customers*. While the business definition may change and expand over time, they know who their customers are, and everything they do aligns with their customers’ needs. Their mission is simply to serve these customers. Such clarity makes it easier to communicate and to make decisions.

In contrast, purely financial decisions, say an acquisition that is accretive, distract attention and divert resources. This is true for large firms as well. For instance, many of the big pharma mergers of the 90’s looked good on paper, but the fact is merged firms typically lost momentum after the deal. The logic of these deals, in terms of how the combination would improve the firm’s ability to serve its customers, was never clear. The integration teams were asked to cut costs and create R&D synergies. There was very little talk about how patients—the *raison d’être* of a pharmaceutical company—would benefit from these activities.

Similarly, small firms looking for the second trick cannot use financial reasoning alone. The business has a much better chance of success if the customers are well defined and the new direction is carefully selected to satisfy unmet needs.

Management Depth

Of course, you are thinking, why would anybody contemplate a second trick if they do not have the capabilities to execute it? The problem is that many companies THINK they have the management depth but don't! Why?

Having gone through a start-up and having succeeded against low odds, management teams grow over-confident. They are now comfortable with each other and with the issues they are facing in the core business. It is easy to forget the pain of the earlier years. Further, the team may easily lack the sense of urgency of the early days.

Finally, there is a resistance to new talent. "We succeeded before by ourselves, so why do we need Joe now?" The exact requirements of the second trick are not apparent immediately, and by the time the senior team wakes up to its shortcomings, it may be too late.

Successful companies recognize their weaknesses and compensate early on. A small biotech that is planning a collaboration in a new direction, for instance, can bring in the necessary business development talent to scope opportunities, focus on the best options, structure favorable deals, and execute and maintain such arrangements.

Letting Go

The day you decide to pursue a second trick is the day you accept losing at least some control. The second trick may be an acquisition, a licensing deal, a new internal program, a partnership, a new market—whatever it is, it dictates a change in the power balance of the organization. A new department may get stronger; someone else will feel the loss. New shareholders (say, after an acquisition) may have different agendas. A new partner may require new standards. Either way, the initial group will feel some level of loss.

At this point, you can say, "OK, I will live with it, because it is for the best anyway." Or you may go along because you are a team player. But you may also try to retain your control and influence. If enough people act this way, the management processes become ineffective. Critical decisions get postponed. The gap between what people say and do grows larger; stress levels go up.

We have seen a successful start-up ignore a great market opportunity because the CEO did not want to make the necessary (and obvious) acquisition for fear of losing control. Nevertheless, we have no doubt that it would have been worse for the company had he gone the acquisition path without the appropriate mindset of letting go.

Conclusion

The conditions above raise serious questions that management teams must address before they embark on a journey fraught with obstacles. Do we know who we are? Who is our customer? What is our mission? Can we handle the core business while building a new one? Are we willing to let go? If the answers are not satisfactory, the stars are probably not aligned in your favor.