

WEBINAR | DECEMBER 1, 2015

# ORGANIZING FOR INNOVATION SUCCESS

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NATIONAL CENTER FOR  
THE MIDDLE MARKET



In Collaboration With





# THE NATIONAL CENTER FOR THE MIDDLE MARKET



## ABOUT THE CENTER

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Founded in 2011 in partnership with GE Capital and located at The Ohio State University Fisher College of Business, the National Center for the Middle Market is the nation's first and foremost expert on the U.S. middle market. The Center's mission is to serve as the leading source of knowledge, leadership, and innovative research on the U.S. middle market economy.

## MIDDLE MARKET RESEARCH & DATA

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Quarterly Middle Market Indicator

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Research and Expert Perspectives

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Interactive Benchmarking Tools

## EXPERTISE & OUTREACH

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Share Research & Discuss Trends

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## EDUCATION

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Executive Programs

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Webinars

# WHY THE MIDDLE MARKET MATTERS

## U.S. Middle Market Defined

NEARLY  
**200,000**  
**BUSINESSES**  
IN ALL INDUSTRY  
SEGMENTS AND  
GEOGRAPHIES



REPRESENTING  
**3.0%**  
OF ALL U.S.  
COMPANIES



ANNUAL  
REVENUE  
RANGING FROM  
**\$10MM-\$1B**



## U.S. Middle Market Impact

 **5<sup>TH</sup>**  
**LARGEST**  
GLOBAL ECONOMY

 **33%**  
OF PRIVATE  
SECTOR GDP


 GENERATED  
AN ADDITIONAL  
**\$500**  
**BILLION**  
IN ANNUAL  
REVENUE IN 2013



2013-2014 CONTRIBUTED  
**1.1+ MILLION**  
NEW JOBS

 MORE THAN  
**\$10**  
**TRILLION**  
IN ANNUAL REVENUE

 **1/3** OF U.S. JOBS—  
APPROXIMATELY  
**45.6 MILLION**

 PROJECTED  
TO CREATE  
**60%**  
OF ALL  
**NEW JOBS**  
IN 2015

# THE MIDDLE MARKET DRIVES ECONOMIC GROWTH IN THE U.S.

## REVENUE GROWTH

**7.2%**

PAST 12 MONTHS

**4.7%**

S&P 500  
PAST 12 MO.

**4.1%**

NEXT 12 MONTHS



## EMPLOYMENT GROWTH

**4.1%**

PAST 12 MONTHS

**2.4%**

SMALL  
BUSINESS

**1.7%**

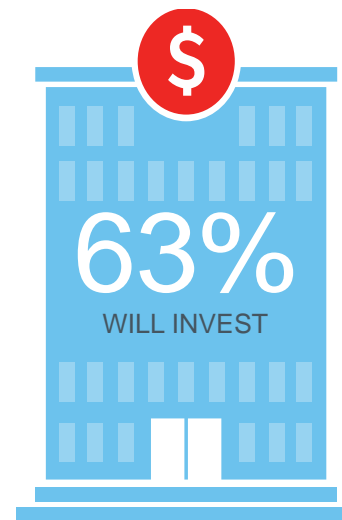
LARGE  
BUSINESS

**3.2%**

NEXT 12 MONTHS



## CAPITAL INVESTMENT



## CONFIDENCE

**49%**

GLOBAL ECONOMY



**72%**

NATIONAL ECONOMY



**81%**

LOCAL ECONOMY



# MIDDLE MARKET GROWTH CHAMPIONS GET AN EDGE FROM INNOVATION



Growth Champions: Top 10% of middle market companies by revenue growth and projections, 2011-13

THE WORLD WON'T  
**STAND STILL FOR YOU**

# TEN MEGATRENDS RESHAPING THE WORLD



Urbanization



Aging Population in US, EU, JP, China...



1 Billion New Middle Class Consumers



A G-Zero World



Race for Natural Resources



Individual Empowerment through Technology and Education



Digitization and the Internet of Things



Winner-Take-Most: Income Inequality



Globalization of Business



Climate Change, Renewable Energy



# HOW WILL THESE TRENDS AFFECT YOU?

## NO BIG SURPRISES

*We'll be Competing  
More or Less  
as Before*

## NEW WINNERS

*It's the Same Game,  
But the Cards Have  
Been Shuffled*

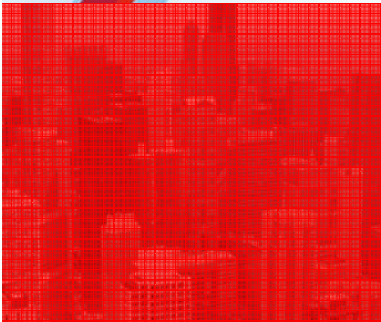
## GAME CHANGER

*We're in  
for Radical  
Disruption*

# MARKETING

<p>Urbanization</p>	<p>Aging Population in US, EU, JP, China...</p>	<p>1 Billion New Middle Class Consumers</p>	<p>A G-Zero World</p>	<p>Race for Natural Resources</p>
<p>Individual Empowerment Through Technology and Education</p>	<p>Digitization and the Internet of Things</p>	<p>Winner-Take-Most: Income Inequality</p>	<p>Globalization of Business</p>	<p>Climate Change, Renewable Energy</p>

# AUTOMOTIVE INDUSTRY



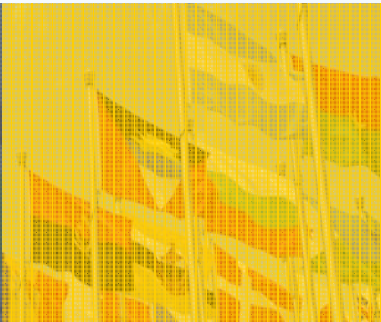
**Urbanization**



**Aging Population in US, EU, JP, China...**



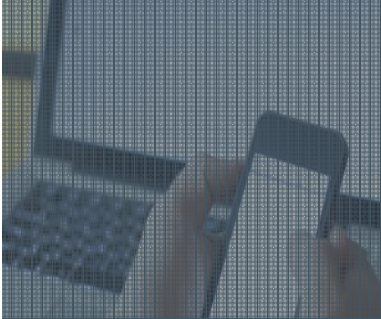
**1 Billion New Middle Class Consumers**



**A G-Zero World**



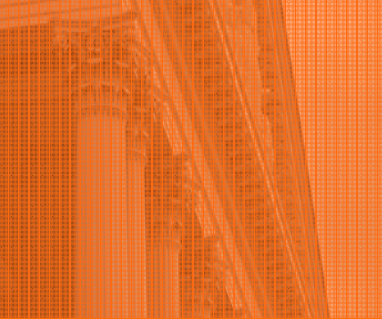
**Race for Natural Resources**



**Individual Empowerment Through Technology and Education**



**Digitization and the Internet of Things**



**Winner-Take-Most: Income Inequality**



**Globalization of Business**



**Climate Change, Renewable Energy**

# ORGANIZING TO CREATE AND CAPTURE VALUE



## Organizing for Innovation in the Middle Market Creating Ideas and Capturing Value

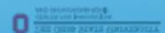
A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET AND  
CHERRY BEKAERT LLP WITH DR. MICHAEL LEIBLEIN OF THE OHIO STATE UNIVERSITY  
CENTER FOR INNOVATION AND ENTREPRENEURSHIP



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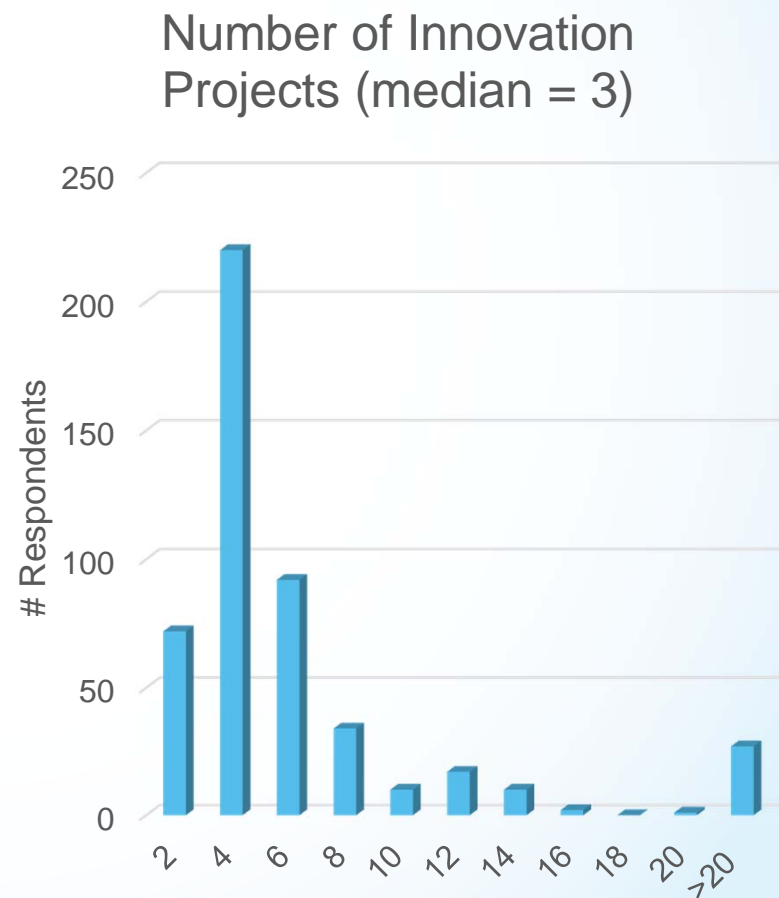


THE MIDDLE MARKET  
INNOVATION CENTER FOR



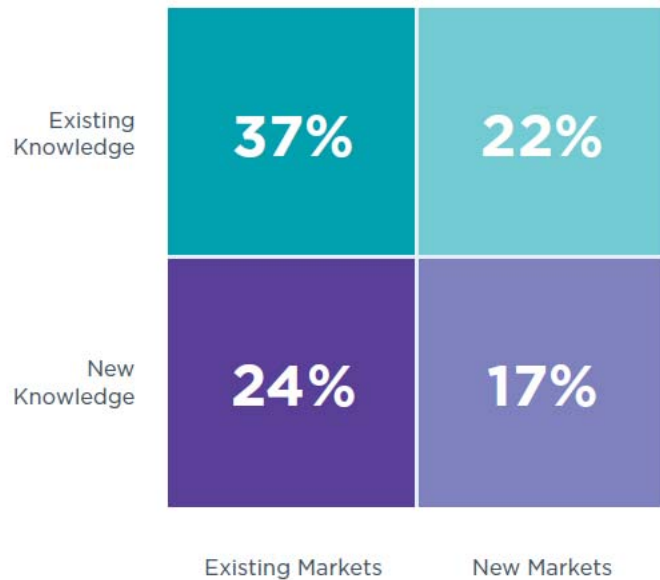
# TAKE CHARGE OF YOUR OWN GROWTH SHARPEN YOUR INNOVATION TOOLS

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

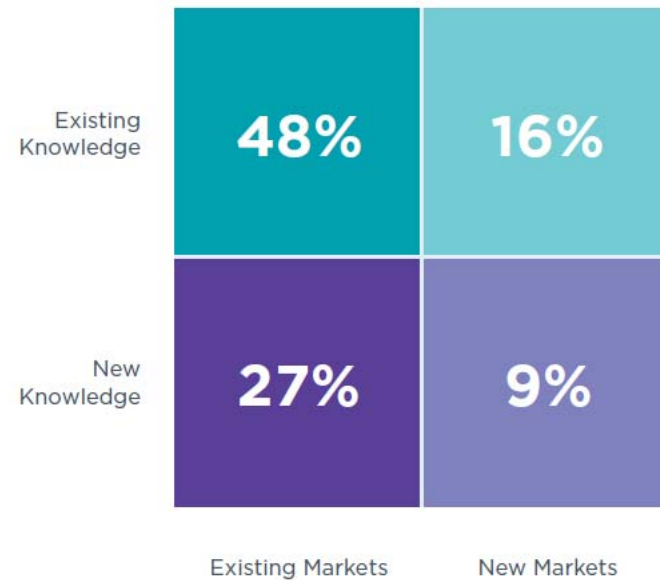


# THE MOST EFFECTIVE INNOVATORS INVEST MORE AGGRESSIVELY

ALLOCATION OF INNOVATION INVESTMENT FOR TOP INNOVATORS

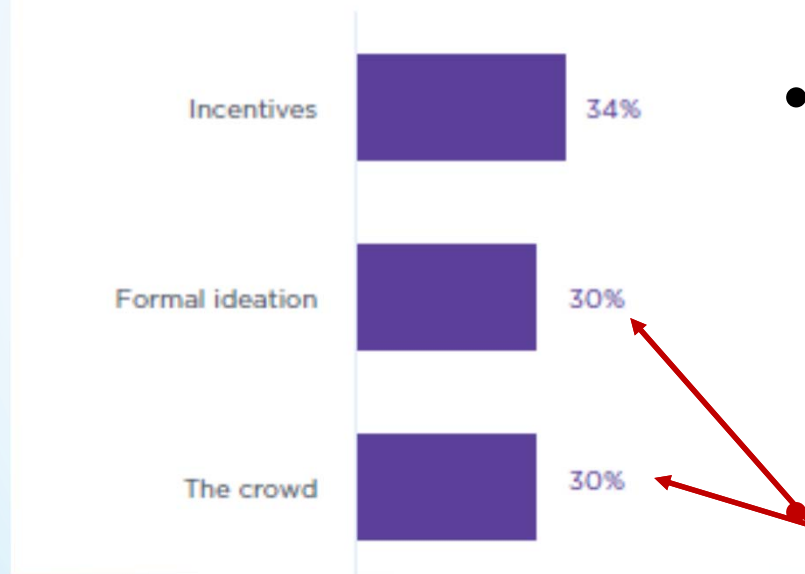


ALLOCATION OF INNOVATION INVESTMENT FOR LESS EFFECTIVE INNOVATORS



# THE BEST INNOVATORS LEARN FROM THE MARKET

## TOOLS USED FOR GENERATING IDEAS



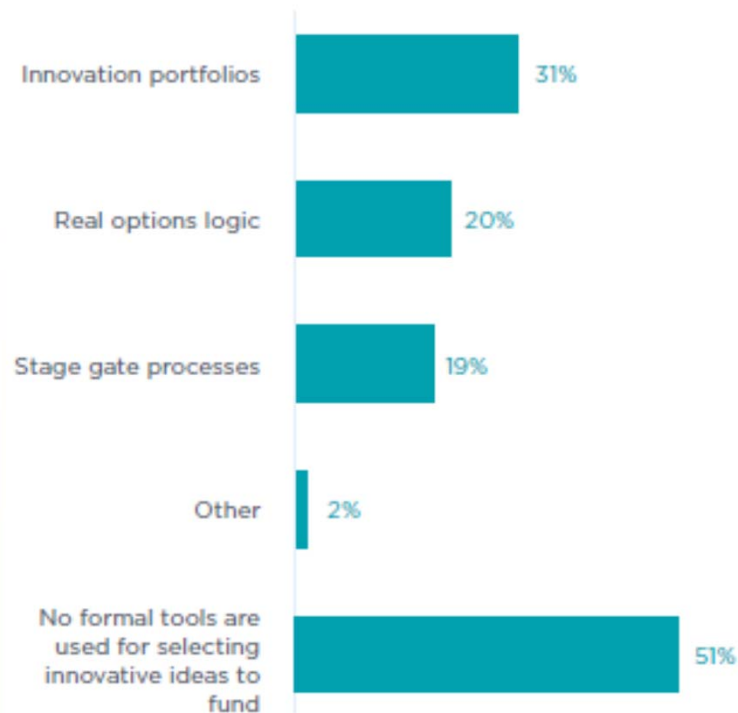
- *Tools such as brainstorming, social network data mining, or traditional market research.*

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

*Ideation & crowdsourcing techniques are positively associated w/ high growth (>10% /yr).*

# TO SELECT IDEAS, THE MIDDLE MARKET APPEARS TO RELY ON GUT INSTINCT

TOOLS USED FOR SELECTING IDEAS



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



# EFFECTIVE INNOVATORS SELECT PROJECTS WITH EXTENSIVE CFO AND CMO INPUT

## WHO INFLUENCES WHICH IDEAS TO FUND?



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

# THE MOST EFFECTIVE INNOVATORS IMPLEMENT PROGRAMMATICALLY

## WHO PARTICIPATES IN IMPLEMENTING IDEAS?



- *Greater involvement from c-suite is associated with perceived innovation success.*

- *CEO, CMO & internal team involvement are positively associated w/ high growth (>10% /yr).*

# STRUCTURE AND OUTSIDE INPUT VARY BY INDUSTRY

		Industry		
	Total	Health and Life Science	Industrial	Technology
<b>Formal Innovation Process</b>				
<u>Generating</u> innovative ideas	51%	72%	48%	58%
<u>Selecting</u> ideas to invest resources in	59%	74%	58%	68%
<u>Implementing</u> or executing innovative ideas	63%	78%	65%	78%
<b>How Innovation Is Conducted</b>				
Using your own team	72%	71%	69%	77%
Working with a team elsewhere in your company	34%	42%	44%	46%
Contracting with outside providers	26%	32%	23%	21%
Using crowdsourcing	7%	16%	4%	19%
Some other way	2%	-	2%	2%
I do not conduct innovation projects	2%	1%	4%	-

# USE TYPOLOGIES TO FIND YOUR INNOVATION GROOVE



## Lessons in Innovation From the Middle Market

How Innovation Models Affect a Firm's Ability to Capture the Value They Create

A REPORT BY THE NATIONAL CENTER FOR THE MIDDLE MARKET AND GRETCHEN GOFFE OF THE FISHER COLLEGE OF BUSINESS



THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS  
A REPORT BY THE NATIONAL CENTER FOR THE MIDDLE MARKET

HOW INNOVATION MODELS AFFECT A FIRM'S ABILITY TO CAPTURE THE VALUE THEY CREATE

# AN INNOVATION TYPOLOGY

## FINDERS



Finders seek out unmet customer needs and innovate to them, displaying a culture driven by a passion for a craft, a drive to share a gift with others, and an uncompromising belief in what they are doing.

## FIRSTS



Firsts establish new markets, often times enabled by applying new technology, engineering or business models to shifting social norms. They often become synonymous with the category they created.

## FOCUSED



Rather than establishing a new category, focused companies find a subset of the category and create unique advantage and barriers to entry.

## FREQUENT



Frequents continuously pump out new offerings through high rates of idea generation and execution. They are seek to combine a fast innovation cycle with long-term strategic focus.

## FAT



Fat companies emphasize profits and efficiency, often extending and exploiting a foundational innovation. Can be a viable strategy for a long time—but change may erode advantages or catch them asleep.

# FINDERS: Prophets and Profits



## TENETS

- Understand customers' needs—even if they don't. Your CMO is your best friend
- Free the founder / genius to create by investing in a great support team
- Make the mission visible and invite customers to join it
- Protect the brand



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***“I SEE MY JOB AS TO BUILD  
A TEAM AROUND HER.”***

**- JOHN LOWE, CEO**

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# FIRSTS: Cutting Edge



## TENETS

- Always seek out what's next, organically or by acquisition, in technology advances and shifting social norms. Technical / scientific leaders are your best friends
- Build on an early lead with line extensions or by expanding the core idea into new markets
- Invest in marketing and PR to educate potential customers and become synonymous with your category





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***“I WOULD RATHER HAVE  
SOMEONE MAKE A  
DECISION AND HAVE IT  
BE THE WRONG DECISION  
THAN NOT MAKE A  
DECISION AT ALL.”***

**- DAN ARIENS, CEO**

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# FOCUSED: Owning a Niche

## TENETS

- Become an indispensable link in your customers' supply chains; deliver scale and exceptionally high quality
- Find and retain top talent as their deep expertise in both domain and category are mission critical
- Be at the cutting edge of advances in the field; go deep with "lead customers" to develop new offerings
- Be willing to form alliances with generalists in your industry



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***“WE WORK REALLY HARD  
TO EARN THEIR BUSINESS  
EVERY DAY, AND WE BRING  
IDEAS TO THEM FIRST.”***

**- JOE DALEY, CEO & PRESIDENT**

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**GSW**

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**INVENTIV HEALTH**



# FREQUENT: Again and Again and Again

## TENETS

- Build an innovation “machine” with strong project-management skills and processes: Your COO is your best friend
- Optimize your supply chain and distribution for efficient execution against high-demand promotions
- Ensure a robust marketing and consumer communication program to stay top of mind with fickle consumers
- Engage partners in early and often idea generation and stay abreast of trends



***“WE DON’T WANT TO BE  
TOO FAR OUT IN FRONT  
OF TRENDS. INSTEAD, WE  
WANT TO BE ON TREND.”***

**- NICK GRAFF, EXECUTIVE CHEF**



# FAT: Living Off the Past



## TENETS

- Determine how much runway you have
- Change a culture that has become resistant to new ideas, risk, or change
- Invest in new bets

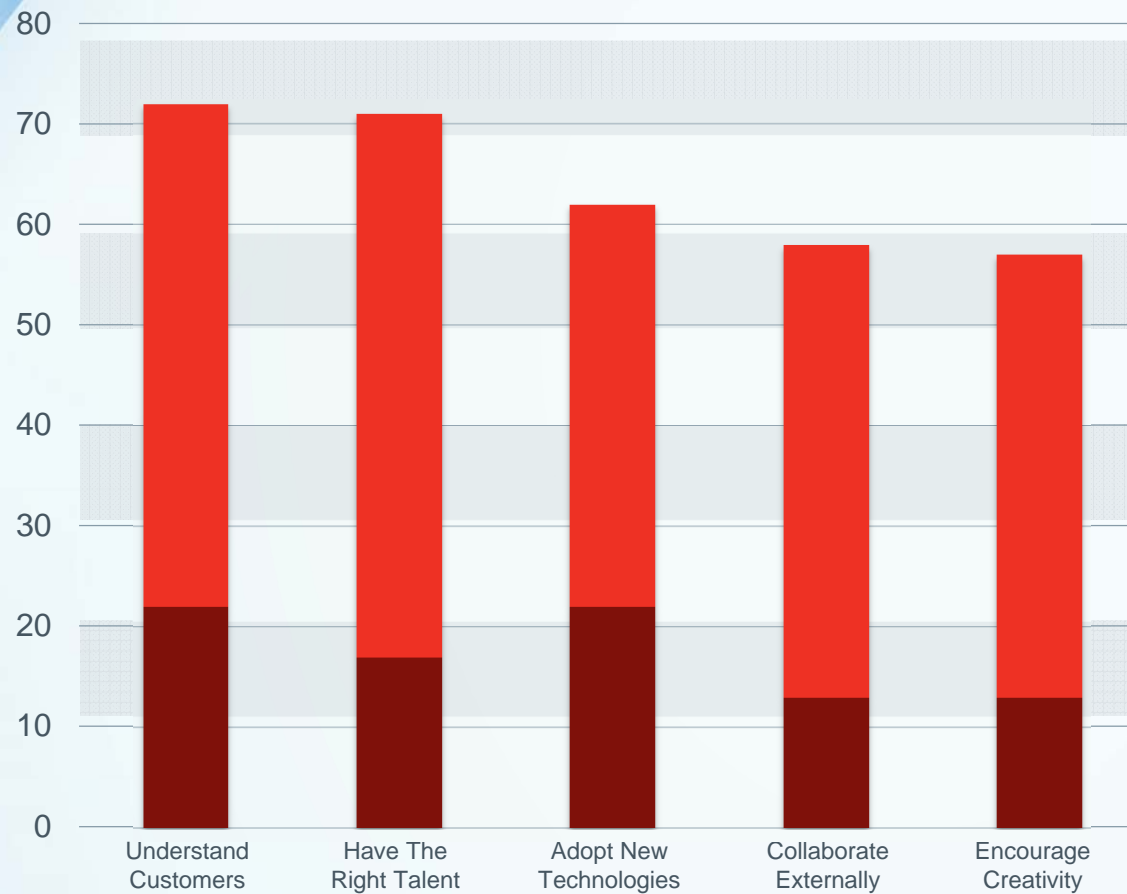
THE WORLD WON'T  
**STAND STILL FOR YOU**

# THE MIDDLE MARKET MAINTAINS A STRONG APPETITE FOR INNOVATION

	Industry							
	Services	Manu- facturing	Whole- sale Trade	Retail Trade	Con- struc- tion	Financ- ial Services	Health Care	Other
Introduced a new product or service, last 12 months	<b>44</b>	<b>49</b>	<b>50</b>	<b>47</b>	<b>19</b>	<b>46</b>	<b>45</b>	<b>39</b>
Plan to introduce a new product or service, next 12 months	<b>42</b>	<b>54</b>	<b>32</b>	<b>45</b>	<b>15</b>	<b>34</b>	<b>35</b>	<b>44</b>



# ...BUT EXECUTIVES SEE BIG GAPS BETWEEN INNOVATION NEEDS AND CAPABILITIES



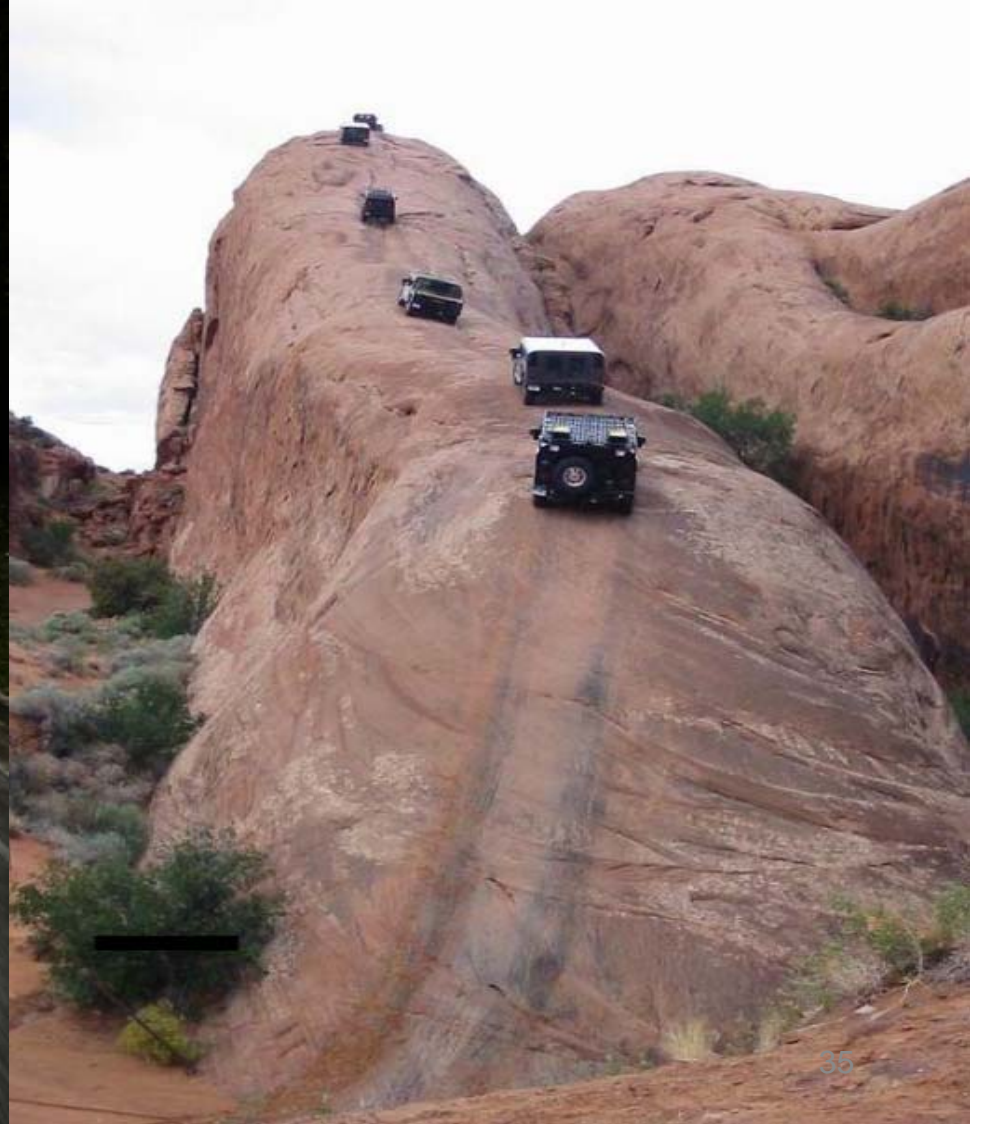
Consider the  
capability critical

Have the capability

# TOP INNOVATORS IN THE MIDDLE MARKET DELIVER VALUE DIFFERENTLY

	Top Innovators	Overall Middle Market
<i>Resource Allocation &amp; Innovation Portfolio</i>	More likely to invest in projects that explore new knowledge or markets.	More likely to invest to reinforce existing knowledge & markets.
<i>Formal Processes</i>	More likely to use formal processes to generate, select, & implement ideas.	Many do not have formal processes in place.
<i>Management Involvement</i>	C-suite involvement is significantly greater and broader.	There is a “left-tail” with very little C-suite involvement.
<i>Open Innovation</i>	More likely to include outside sources.	Innovation primarily conducted in-house

# THE MORE UNFAMILIAR THE TERRITORY THE MORE ROBUST TOOLS YOU NEED





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