Incumbents Provide Lessons

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If it were just about the product, 92% of new businesses wouldn't fail and brand / line of extensions of legacy companies wouldn't be almost as grim. So while the lack of product-market fit serves as both a useful diagnostic tool and post-mortem narrative, understanding where businesses rather than products fail is an additional method to help businesses improve upon the 8% success rate.

Since The Startup Genome and others have done an extraordinary job showing the drivers of early stage failure, Month 16 has been working through a new approach: examining how incumbents stumble, so early stage investors and founders can essentially say "let's not do that". Innovation is essential for legacy companies' growth. For example, Accenture noted "The belief among US executives that innovation is a critical tool for growth and market differentiation is stronger than ever". They noted that in 2015, 84% of surveyed companies said that their "organization's strategy was dependent on innovation", up from 67% three years earlier. McKinsey's global survey of software businesses concluded that innovation-driven "growth trumps all…growth yields greater returns. High-growth companies offer a return to shareholders five times greater than medium-growth companies".

However, as essential as innovation might be for an incumbents' growth, there's a gap between what incumbents say they want to do and what they're actually doing.

One of the two most common responses to the question. What are the "primary goals of your organization's innovation efforts?" in the same Accenture study was… "add new value to a current product". Retail incumbents, for example, are holding off incumbents by opening new stores rather than making the current formats better. It's an example of what Accenture called "renovation" or what Month 16 calls "evolution" versus "revolution". Why is there such a gap between goals and actions? Part of it is "the culture of no" at incumbent organizations.

Another driver is that innovation efforts at incumbents often follow the same processes as other efforts. [Shameless plug: Noel and I were both successful earlier in our careers driving innovation at incumbents outside of those businesses' standard operating procedures. Although current thinking that incumbents should change their ways rather than sunk-working it, the covert way sometimes works.] Incumbents' business stumbles offer opportunities for early stage investors and businesses well-beyond going to market with cool new products.

According to Gallup, only 40% of B2B customers believe that problems with a company were resolved and 71% feel “actively disengaged” with the businesses they write checks to. Customer service might not be sexy, but incumbents’ inattention is a market opportunity.

What Fast Company called “authentic purpose” might sound too loosey goosey for hard-charging early stage stakeholders, but P&G’s former CMO Jim Stengel is a big believer that big ideas drive differentiation-building alignment between strategy and actions. Irony aside of including Stengel in a post about incumbents’ foibles, research supports his thrust and offers lessons for early stagers.

It’s easy – and fun! – to make fun of incumbents: the world doesn’t need another flavor of Oreos; Staples is often anything but “easy”; and the idea that GE’s global web site connotes globalism by showing weather from around the world rings hollow. But there are lessons here. Play time over, a new and instructive analytic tool for early stage investors and businesses is to look beyond incumbent products for possible white spaces to what opportunities their businesses might offer.

<u>Resources</u>

US Innovation Survey: Clear Vision, Cloudy Execution. 2015.

Grow Fast Or Die Slow. 2014.

Guide to Customer Centricity: Analytics and Advice for B2B Leaders. 2016.

Jim Stengel. Ideals: The New Engine Of Business Growth. 2016.

Ian Hathaway, Mark E. Schweitzer, and Scott Shane. The Shifting Source of New Business Establishments and New Jobs. 2014.

Faisal Hoque. The 7 Fundamentals Of Sustainable Business Growth. 2015.