

Innovation vs. The Entrepreneurial Centrifuge

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As a business owner, it's easy to get distracted. It's easy for your employees to get distracted as well. With limited time and resources, how do you prioritize your efforts and keep your team focused on activities that yield the highest return?



Management guru Peter Drucker, once said, "Because of the nature of business, it has just two functions and only two: Innovation and Marketing. Innovation and Marketing make money. Everything else is just a cost."

Innovation for its own sake is not the point, however. You can get hooked into the concept and try to innovate in too many areas or in the wrong areas. Well-meaning employees head off chasing the next shiny object, and the company loses focus. The result can be inefficiency, frustration and poor results...all under the guise of innovation.

This is an example of what we call the Entrepreneurial Centrifuge. Maximum power is at the center of your business, but it dissipates as the inertia of the "bodies" (you and your team) tend to spin you away from your essential core activities. One useful way to evaluate where you should direct your innovative energies is to separate things that happen in your company into four categories; and then to look at them from two perspectives: an operational perspective and a marketing perspective.



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Four Aspects of Your Business

1. Your Central Offer. This is at the very core of your business. It's what you offer and deliver to the marketplace. It's what people pay you to do. If you do this well, you can make millions. If you do it poorly, you can lose millions. The risk and reward levels are both very high. Therefore, focusing your attention and that of your team in this area provides maximum return. It is here that you should put your maximum internal energy to innovate and market. Of course, this is intellectually obvious, but it's easy to lose sight of in the daily pressures of business.

2. Critical, But Not Central. Some activities are clearly essential to the delivery of your Central Offer, but despite their importance, you can't devote significant internal resources to them. These are activities that if they go undone or get done poorly can devastate your business. The trap is that devoting internal resources and trying to develop expertise in them does not get you much return. So, the risk factor is high, but the reward factor is low. A good example is your computer system. An effective IT system has become critical to most

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small companies. If it fails, you can get badly hurt. You can waste a lot of internal resources fussing with your IT trying to innovate and make it work better, but you're simply not going to get the same return as if those same resources are focused on your Central Offer. Consider outsourcing these Critical, But Not Central IT functions to trustworthy vendors whose Central Offer is optimizing computer systems. Make sure you pick partners that are actively innovating in this domain... so you don't have to.

3. Necessary, But Not Critical. Many business activities are necessary just to sustain the business operations. However, it doesn't matter how well you do them, because they don't really produce a return. If you do them poorly, that doesn't hurt you much either. In other words, both the risk and reward factors are low. Investing a lot of money, time and staff resources in these areas does not make sense. Unfortunately, well-meaning but misdirected employees can suck up limited resources making things incrementally better in these areas, to no real benefit. They can look like attractive places to spend time "innovating," precisely because they are low risk/low reward. Since there is no significant way to measure the value of incremental improvements, some people like to hang out here looking busy. If you've ever had someone invest 200 hours "perfecting" a safety manual, you know what I mean.

The slogan, "If it's worth doing, it's worth doing well," can actually be a pitfall in this category. Simply "good enough" should be the standard here. It's the job of management to decide how good is "good enough," and how to accomplish that as efficiently as possible. If you outsource these Necessary, But Not Critical, functions, you're simply looking for an adequate vendor at the lowest cost. This conserves your energy and capital.

4. Irrelevant. The name sort of says it all, other than to note that every business at times finds itself spinning out of control due to the pull of the irrelevant, so constant vigilance is in order.

Operational and Marketing Perspectives

From an Operational perspective, your internal resources need to be focused

on the Central Offer. Outsource the Critical, But Not Central activities to the best vendors you can find...and focus on the overall value they provide, not price.

Find the most cost-effective way to handle the Necessary activities and rigorously purge the Irrelevant.

From a Marketing perspective, there is little merit in spending money promoting products and services that prospects find irrelevant. Yet we see this all the time, where an entrepreneur invents a product he thinks is cool, but it really doesn't matter to anyone else. Millions of dollars are wasted promoting the irrelevant offering, and the market responds: "Who cares?"

If your products and services are perceived as Necessary, But Not Critical to your prospects, you are going to experience downward price pressure and margin squeeze. For small companies, investing excessive amounts of money in advertising and promoting these low-margin offerings is a death spiral. That's a game only the big, deep-pocket guys can play. Your marketing must be much more creative and efficient. Internally, your innovations must be directed toward:

- producing your product or service more cost-effectively, and
- developing new high-margin products and services that address Critical, But Not Central issues for your prospects.

Where the Money is:

From a marketing and business development perspective, high-profit margins are found in the areas prospects see as being Critical, But Not Central for them, or in areas that clearly augment their Central Offer. That's where your innovation and marketing energies should be tightly focused to achieve maximum returns for your customers and, as a result, for your business. Educating prospects and building a case for how your products and services provide valuable assistance in their Central and Critical areas is the job of marketing.

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