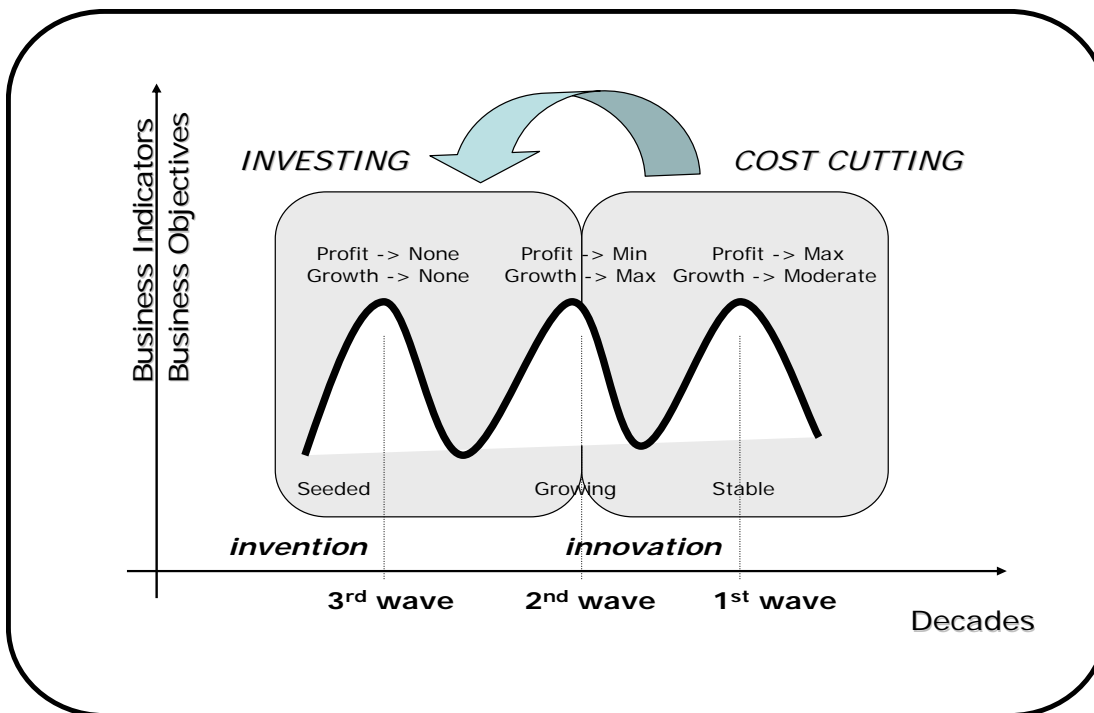


Corporate Renewal Engines

By Kemal A. Delic

The great, long-living companies are able to adapt to tectonic market shifts and historical changes while crossing different technological epochs. Several books have captured historical and anecdotal evidence about such extraordinary businesses, while we have a few crisp and simple business models of these great companies. This distinctive ability of business survival through renewal can be succinctly captured in a **conceptual three-waves and two-act model** below.



Kemal A. Delic , 2005

Hypothetical corporate business is organized so that the mature products or services (first wave) are making the bulk of the corporate profit (double digit range) and grows modestly (single digit). Next wave is a growing business (strong double digit growth) while maintaining profitability (single digit). The future may critically depend on the third wave having no revenue objectives nor bringing profit while spawning critical, inventive technologies. Globalization following the spread of Internet is hinting at the several ways of organizing those **three waves into orchestrated business whole**.

While riding those waves, it is critical to observe two delicate acts: the act of cutting cost without disrupting or destroying value and act of using proceeds for the wise and accurate investments. The first seems

as easier and more practiced, while the second is, actually, more critical for the future survival as it includes much higher uncertainty and risk.

Invention as the typical source of the breakthrough technology is frequently seeded in non-hampered corporate or academic research and is always present in the first wave. The second and third waves are embodying **innovation** as persistent, incremental improvements of known technologies leading to improved efficiencies followed by the cost cutting. Intellectual property created in all three technology waves is extremely valuable by-product of this business model.

More often than not, companies are boosting their technology portfolio through mergers and acquisitions which implies also modification of this model. There is an ongoing debate of advantages of **organic business growth** versus mechanical growth through M&A acts. These are highly delicate, high-wire acts as it seems that organic growth might be slower but healthier. A digestion of puzzle of acquisitions is always risky and requires significant human effort and sacrifices.

Also, one should observe that applying this model to hyper efficient companies may not be appropriate as they may stop inventing while striving only for efficiency. Same applies to hyper inventive companies which might cease making money aiming at the ultimate brilliance. The common wisdom will suggest **balanced ratio** between **efficiency/innovation** as experiential **golden-cut number**. Inventiveness is yet another serendipitous subject on which many books have been written lately.

Good companies ride these three waves only once, while **great** companies are able to **reinitiate and re-ride them several times** surviving several decades or few centuries in always evolving and uncertain markets. In doing this, they know exactly how to balance the cost cutting and investments while doing it always perfectly timely and very accurately.