

# Changing Lanes

*Transition planning for entrepreneurs and family businesses*

Volume 10 | Issue 2



with compliments from



**Edward Rosenfeld**  
Family Business Consultant  
*Guiding Family Business, from Now to Next*

## Managing the Best By Date

Whether it's buggy whips or typewriters, carbon copy paper or cassette tapes, most of us have experienced the demise of common household and business items when new inventions became mainstream. It reminds us that change is constant. The radio age became the TV age, which subsequently led to the computer age and ultimately the digital age. Millennials have been raised with video games, digital cameras and smart phones. But even this technology will undoubtedly evolve or fade into obsolescence one day.



Regardless of the age or size of the operation, all businesses need to continually monitor the "best by" date of their products and services – not only what they do, but also how they do it. With the rising popularity of ipads and other tablets, giants like Dell and HP recognize the need to monitor an increasing decline in PC usage. Whether anticipating or reacting to a shift in the traditional shopping environment, Staples has become the 2nd biggest online retailer, second only to Amazon. Companies like Stouffers, McCains or Birds Eye may find themselves battling a decline in sales of their frozen foods as "freshly-prepared" becomes more appealing to the health-conscious consumer. Even Facebook is seeing its influence decline and is purportedly exploring ways to expand its offerings in anticipation of a reinvention.

Addressing product obsolescence is extremely critical when preparing your business for sale. A successful sale may depend on your ability to avoid slipping into the decline stage of the business lifecycle. You must go beyond simply monitoring your "best by" dates to reinvent your business in a way that highlights your sustainability and longevity.

In this edition of Changing Lanes we explore the need to prove to prospective buyers that you have a pipeline of products and services in various stages of development that will provide ongoing opportunities for growth. 

### Inside....

<b>What's in the Pipeline?</b>	<b>2</b>
<b>The Penultimate Hour</b>	<b>2</b>
<b>Find the Leading Star</b>	<b>3</b>
<b>The Innovation Curve</b>	<b>4</b>
<b>Alex and the Mustard Seed</b>	<b>4</b>

# Changing Lanes

Transition planning for entrepreneurs and family businesses

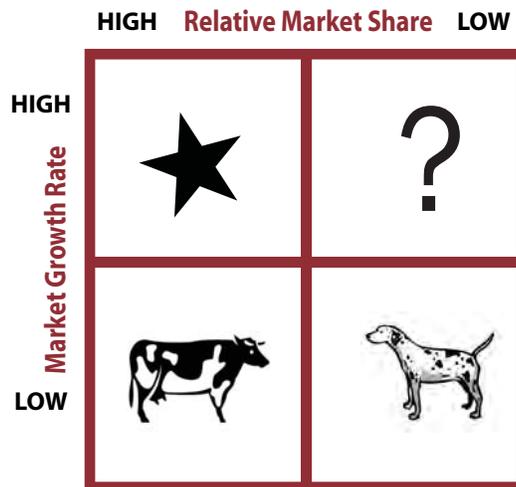
## What's in the Pipeline?

The good news is that not all products (tangible or intangible) are headed for obsolescence – they don't all have the same "best by" date! Some due diligence will determine which to keep (e.g. cash cows) and which should be liquidated (dogs).

A **dog** is a product that has a low market share and very slow growth. It may not yet have reached the decline stage in the product lifecycle but can be identified because it requires a significant reinvestment of profits in order to remain viable.

### Find the Cash Cow

A **cash cow** is a product that produces a consistent return far exceeding the investment required to maintain it. The term is derived from the analogy of a dairy cow that continues to produce milk with little cost beyond the initial capital outlay. These are typically products with a high market share but low growth expectancy. They are a valuable part of your product portfolio as the excess cash can be reinvested in future product development. Every business needs at least one such cash cow to fund a pipeline of new products.



Adapted from the BCG growth share matrix

### Follow the Star

The main objective of your product pipeline is to produce **stars**, those products that can provide both a high rate of growth and a high percentage of the market share. Creating these stars is not an exact science and developing them requires significant resources. Many start out as **question marks** – high growth innovations that have the potential to gain market share and become stars (and cash cows later) but at the same time could turn out to be dogs. Funneling them through a pipeline requires a large investment of cash to secure market share.

While innovation is a driver of growth and profitability and therefore an important value enhancer for a business in transition, not all new ideas will, or should,

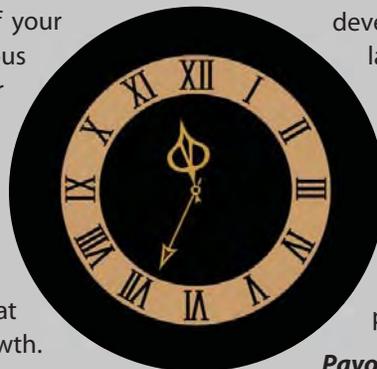
remain in the pipeline. The key is to identify those that have the ability to become stars, and subsequently, cash cows. Read on to learn more about creating a pipeline of viable products that are in various stages of development and at different points on the innovation curve. 

## The Penultimate Hour

You are almost there! It is now the eleventh hour in preparing your business for sale and time to add the finishing touches to ensure the saleability of your company. The objective is to extract the serious buyers from all the prospects within the firm or from the outside.

In the previous hour, you focused on ensuring potential buyers would clearly see how your business could continue to be profitable under their leadership. You developed a 3-year strategic plan that showcased the opportunities for ongoing growth.

In Hour Eleven, you will continue to implement your strategic growth plan and further promote your business as a value-creator.



### Hour Eleven

#### Purpose

To ensure you portray a culture of ongoing product development with a pipeline of new products to launch at the time of the sale.

#### Process

Use the findings of a SWOT analysis to identify the strategic initiatives that will be key in developing a future-focused product portfolio with the appropriate operational, sales, and marketing plans to ensure projections are met.

#### Payoff

You will have completed a plan that is not only financially viable but shows prospective buyers that the projected growth can be achieved. 

# Changing Lanes

Transition planning for entrepreneurs and family businesses

## Find the Leading Star

As you have seen, your goal is to develop a product portfolio that includes:

- 📌 **Stars** that lead the future with their high growth and high market share.
- 📌 **Question marks** that can be groomed as the stars of the future.
- 📌 **Cash cows** that provide the funds needed for the development of future stars.

As due diligence progresses, some embryo products will move down the pipeline to the next stage of development while others will be determined unsuitable and rejected.

In developing this portfolio, consider how you might use a SWOT analysis and a PEST analysis as the catalyst for some outside the box thinking.

### SWOT Analysis

Over your years in business, you have likely conducted many SWOT analyses and have seen your business improve as a result of these insights and subsequent actions.

Now apply this same thinking to the process of identifying where your current products are in the product lifecycle, and how to develop a pipeline of products and services that not only have the ability to drive growth in the short-term as you prepare the business for sale, but will continue to generate revenues for the new owner(s).

Given that a SWOT analysis identifies those areas of your business that are performing well, alongside those that put your company at a disadvantage, it follows that it can also be conducted with a focus on:

- 📌 Determining the strengths and weaknesses of your current products (today); and
- 📌 Ensuring you identify the external factors – opportunities and threats – that influence what you sell, how and where you sell, and to whom (tomorrow).

From this analysis, you will be able to develop specific strategies that promote product-related strengths and

opportunities while simultaneously managing weaknesses and threats. The overall objective is to:

- 📌 Focus on the innovation that leads to new and improved products for the pipeline.
- 📌 Ensure you retain the cash cows that will fund future development and identify any dogs that should be liquidated.

### PEST Analysis

Including a PEST analysis as part of your assessment of external opportunities and threats will further assist in determining the ongoing viability of products entering the pipeline. It allows you to drill deeper into those factors that typically impact the acceptance of any product in the marketplace, and will help determine which new ideas are most likely to become stars, cash cows, question marks or dogs. A PEST analysis examines the potential:

**Political impact** ~ the effect that local and international legislation, regulations, funding or grants may have on pipeline products today and tomorrow.

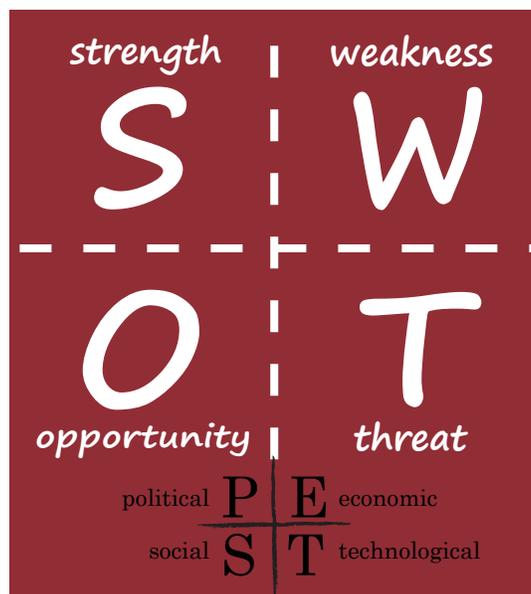
**Economic impact** ~ how inflation, interest rates, exchange rates, and the general economic outlook might influence the viability of the product.

**Social impact** ~ how lifestyle changes, demographics, public opinion, ethical, media, marketing and other trends might affect product acceptance.

**Technological impact** ~ the role that R&D, patents, technologies, or automation play in bringing the product to market and managing the competition.

Whether you sell tangible or intangible products, try using the above tools to determine where you

need to allocate your resources in the development of a pipeline that will ultimately reinvent your business and convince a buyer that current revenues, growth, and profitability will extend far beyond your ownership. 📌



## The Innovation Curve

**Make a better mousetrap and the world will beat a path to your door.**

*Ralph Waldo Emerson*

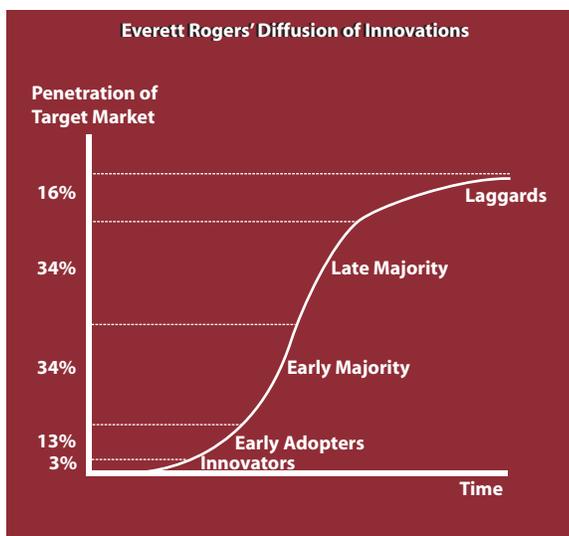
For a new or improved product to become a star, or even a question mark, it absolutely needs to gain acceptance in the target market.

Market acceptance is much broader than filling a niche or appealing to a specific demographic. It goes beyond the immediate take up by those that are described as innovators and early adopters – the 16% of your target customers who are eager to try new things or quick to accept change. It also discounts the opinions of the traditionalists or laggards – the 16% who hold out until the bitter end and refuse to adopt any new idea unless the alternative is no longer available.

Consider the following innovation curve, based on Everett Rogers' **Diffusion of Innovations** theory, which shows that the uptake from the market depends on your ability to win over both the:

- Early majority: the 34% of your target group who typically research the data, listen to the opinions of others, and weigh the pros and cons before making a decision; and the
- Late majority: the remaining 34% of the target who are more conservative or skeptic about new ideas or products until they are fully proven and accepted by others.

A market test is critical for determining which products should continue to funnel the pipeline and be supported by further development, testing and promotion. 🌟



## Alex and the Mustard Seed

When we last checked in on Alex, he had just turned down a tempting offer for his business. He preferred to focus on his original vision for the sale of his company and develop new product ideas that would intrigue his target buyer.

As a result of the deeper insights gained from the SWOT and PEST analyses conducted two years ago, Alex and his team developed and tested a new technology that quickly captured the attention of the innovators and early adapters. The ensuing marketing and sales program has attracted the early majority sector of their target market, and revenues are in line with predictions. It's safe to say this pipeline product is well on its way to becoming a *star!*

Remember the discussion with the new distributor? The development for that new product is under way and they easily have a two-year lead on the competition. "This is a proprietary product," explains Alex. "Others may try to imitate what we have developed, but ours will be the premium product, which means increased margins."

When asked about the journey since the beginning of this strategic growth plan, Alex described it like the parable of the mustard seed – amazing growth from small beginnings. Made possible by a strong *cash cow* in the form of their core product, this investment into the development of a robust product portfolio has not only exceeded all expectations, but also changed the outlook and culture of the team to one that is much more future-focused.

Be sure to check back in the final hour to see if Alex's strategy paid off. 🌟

Edward Rosenfeld  
Family Business Consultant

*Guiding Family Business, from Now to Next*

2578 Broadway, Suite 116  
New York, NY 10025  
T: 212.579.2613

W: <http://www.edwardrosenfeld.com>  
E: [ed@edwardrosenfeld.com](mailto:ed@edwardrosenfeld.com)