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Jeffrey Knakal is an experienced investment banker, having built successful practices for JP Morgan, Credit Suisse, and Daiwa Securities in New York and achieving a number of "first-time" transactions for Fortune 500 companies. In 1994, Jeff founded Growth Partners to provide a next-generation offering to C-Suite executives of middle-market companies based on the integration of strategic engineering and investment banking. The firm possesses a turnkey set of M&A, capital formation, and corporate development capabilities. It specializes in "Value Creation" activities, which pertain to defining and executing a company's next-level development to create new value (Jeff founded two $100 million companies based on horizontal integration theses and acquisitions), and "Value Realization" activities, which pertain to preparing for and executing a liquidity event in a manner to maximize value. Jeff has degrees from the Wharton School and NYU.

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Strategic Engineering

Is there a greater imperative?

The discipline of strategic development originated in academia in the 1960s, became mainstream in the 1970s and progressed to a key functionality in the 1980s. Over the past 10–15 years, the art & science of "strategic engineering" has become highly prominent in response to the developed dynamism, complexity and uncertainty within marketplaces all contributing to a greater risk of displacement.

Strategic engineering is the centerpiece of Value Creation. It entails architecting the design of the optimal modification to a company's product/service offering, or in some cases, its business model, to increase earnings of the proper quality and the growth profile. I would argue there is no other activity that is more important to a company's welfare, and more impactful in regard to increasing its valuation.

The Key Message

McKinsey has validated a high correlation between revenue (vs. earnings) growth and sustainability. Without continuous strategic engineering to produce revenue growth, most companies will be disrupted (44% never recover), with the primary disruption cause being not modifying the core business (Olsen). Even during periods of growth, the dissection of the S-Curve suggests militating forces are at work to make such performance short-lived (Nunes). So, the message is continuous engineering is a necessity.

Revenue Growth

Most revenue growth is related to a company's ability to expand, or create a new marketplace, while acquisitions and marketshare gains are subordinate sources (Baghai). Many companies are almost exclusively consumed by competing head-to-head for marketshare even though this is a diminishing return activity, and the smallest contributor to growth, while perseverating on benchmarking. This might be a result of unfamiliarity with the approaches to, and best practices of strategic engineering.

The Approaches

The taxonomy of strategic engineering frameworks is diverse, and these paradigms well transcend such elemental tools as SWOT and PESTEL. The prominent approaches include: the Resource-Based Theory which pertains to assembling inimitable assets (Barney), the Profit From the Core Strategy which focuses on niche development (Zook), the Competitive Advantage Strategy which is marketplace oriented (Porter), the Cocreation Approach which pertains to CVP development (Prahalad), the Portfolio of Initiatives Strategy which is based on engaging multiple initiatives (Bryan), the Emergent Strategy which is focused on unintended patterns (Mintzberg), and the Economic Value Add Strategy which is based on financial return (Stern).

Blue Oceans

The most prolific strategic engineering approach might be the Blue Ocean Strategy (Kim) because its consequences could be the most dramatic. The approach entails creating a new, but "related" marketplace composed of some existing and some new customers to eliminate competition, and enjoy high growth rates. This new space is referred to as a "Blue Ocean," while the reference to operating in a competitive marketplace is a "Red Ocean" (blood in the water caused by the competition). The idea is to beat the competition by "not" beating the competition (Berra).

This strategy is based on the theory

marketplaces are continually expanding, e.g., old SIC codes vs. new NAICS codes, and the objective of creating a higher value but lower cost offering. The comparison between Blue and Red Oceans includes: (1) new market boundaries vs. fixed boundaries, (2) offering differentiation at a lower cost vs. deciding upon one or the other, and (3) creating new demand forces vs. fighting for existing demand. Examples of successful Blue Ocean Strategy include Starbucks, Cirque du Soleil, Home Depot, NetJets, Curves, and Southwest Airlines.

The methodology related to finding Blue Ocean is a four-step process: (1) plotting a customer value curve with demand factors on the X axis and market segments on the Y axis, (2) determining what factors should be eliminated, reduced, increased and created (the Four Action Framework), (3) crafting an action grid identifying the actions to be undertaken, and (4) creating a new value curve to validate the Blue Ocean space.

A Recommendation

Notwithstanding its logic and substantial benefit, it is thought this engineering approach is a "bridge too far." The key issue is the accuracy of the value curve inputs. Rather, it is suggested companies should embrace a more pragmatic approach to engineering. In lieu of seeking Blue Ocean, or a new marketplace, it is recommended companies search for "**Purple Ocean**," or CVP/offering modifications directed at certain sets within the existing customer group as this will expand an existing marketplace.

Companies have four types of build propositions to consider: (1) core expansion, or offering more of the same customer group, (2) an adjacency, or expanding the offering's content to the same customer group, e.g. horizontal integration, (3) related diversification, or creating a new offering to a related set of existing customers, e.g., customized niches or Blue Ocean outcomes, and (4) unrelated diversification, or creating a new offering for a new group of customers. Customer groups have multiple layers, and are composed of primary and peripheral consumers, users and influencers.

The strategic engineering best practice is to engage the "Duality of Growth" (Deloitte), which entails the simultaneous building of the core and an adjacency. Based on multiple studies, an adjacency produces the greater return within the confines of relatively modest risk. The adjacency alternative is based on continuously bundling value to enrich the CVP, which in turn, will create competitive distinction and Purple Ocean space (a hybrid between Red and Blue Ocean space). Within my Value Creation offering, a proprietary process is used to find Purple Ocean, or bundling opportunities given the optimal risk/reward profile, along with other value creating opportunities. I am an unabashed advocate of horizontal integration, and Purple Oceans.

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Other Best Practices

While space does not permit an outline of the methodology to design optimal offering modifications, the following will provide a Top Ten list of strategic engineering best practices:

1) Customer Centricity. While five core dimensions should be assessed, the key analysis focus is the customer in regard to determining present and "future" needs, along with understanding the processes and outcomes becoming before and after the consumption of the product/service.

2) Functionality Traits. Most large companies have Chief Strategic Officers whose archetypical function entails design architecture, intra-company mobilization, data synthesis, disruption analysis, and quantitative analysis (Birshan). Smaller companies need to have or obtain some of this functionality.

3) Program Priority. Most companies do not consider strategic engineering unless or until a competitive threat is manifested, but yet, such activities are essential to survival and growth. Thus, engineering should be considered a "fire," and something demanding continuous attention.

4) Group Meetings. High quality engineering programs entail a continuous cascade of meetings, e.g., daily/weekly senior management scrums (Alan Mulally, Ford) characterized by maximum cross-fertilization, mandating competing groups to conduct analysis, and dis-incentivizing orthodoxy.

5) Organizational Integration. The engineering process is the charge of the entire enterprise so senior management must align all of the dimensions of a company toward the creation of an integrated system to gather, present and be rewarded for intelligence and ideas.

6) Edge Centricity. The most valuable data is found by exploring the outer edge of where the company operates, and the outer edge of the industry with attention paid to niche origination (micromarkets), unsuccessful attempts to create substitutions, and how/why boundaries are changing.

7) Data Disaggregation. A prominent assessment failure encountered by many companies pertains to lumping customers into one group and aggregating financial data, vs. segmenting customers and creating financial return assessments for each customer set.

8) Third-Party Participation. Another difficulty pertains to the prism of existing biases. This is overcome by having a third-party participate in the process (A.G. Lafley, P&G), and interestingly, this party does not need deep industry experience since "comparative" outcomes are suboptimal (Ibarra).

9) Customer Tests. Once a new offering modification has been developed customer feedback should be obtained, and game theory utilized to anticipate marketplace responses to provide tactical direction.

10) Resource Dedication. A key requirement is to ensure the dedication of financial resources to invest in modifications if an acquisition is not available. Companies experiencing double-digit revenue growth invest almost 3.0x times more per sales dollar in R&D (NCMM Survey).

In summary, if companies are not proactively building via offer modifications they are regressing—even if revenue growth is robust. Strategic engineering is the essential solution to not just ensure a company's sustainability, but to expand its market, achieve revenue/earnings growth and produce the greatest valuation impact. So, is there a greater imperative?