

# S 2 I NEWS

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**S2I News** is a monthly publication of Strategies 2 Innovate. It aims to present information on topics important to today's business leaders. We hope these articles will help you develop a clear framework useful for guiding your organization's innovation and strategy.

This is the second edition of our new series examining the challenges organizations will face over the present decade in the area of innovation. Our past series include developing a core competence strategy and best practices for managing innovation.

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## Innovation During A Decade of Challenge - Pt 2

### A Decade of Mergers?

In the last issue we suggested that our present decade would be a period of challenge for businesses. The main premise for this was that we are nearing the crest of the fifth techno-economic paradigm: the information and communications technology wave. By crest, we mean that the period of radical transformation and rapid adoption has run its course and what follows is a more gradual advance in applications and economic benefit. In addition, the key factor industry driving this innovation wave, microelectronics technology, faces a number of challenges. The first is that technology is advancing faster than we can use it productively and this hinders return on investment and puts a braking effect on the rate of capital investment in new chip manufacturing technology. Secondly, manufacturing capabilities have advanced to the extent that capacity can easily outstrip global demand.

So what does all this mean for the future? Because the rate of market growth will be significantly lower than the past decade, many firms will continue to languish with low revenue growth, or worse still, balance sheet erosion. This typifies the excess supply over demand that follow waves of intense industrial ferment with their

accompanying host of new entrants as we have seen over the past decade. This imbalance will cause a prolonged period of consolidation for many industry sectors, which will be more intense in sectors where "dominant designs" have begun to appear<sup>56</sup>.

A historical example of this phenomenon was the emergence of the single chip calculator in 1971. Prior to this period, five major vertically integrated companies manufactured electro-mechanical machines and controlled nearly 90% of the US market, each addressing a specific market segment. The emergence of the electronic calculator in 1962 opened the door for a wave of new firm entrants that peaked in 1972 with 21 firms in the prior 3-year period. With the introduction of the single-chip design in 1971, the rate of new entrants decreased and a wave of exits, especially assemblers of purchased components, began<sup>56</sup>.

But change also provides opportunity. Firms in sectors characterized by such supply imbalance will be presented with new strategic opportunities for growth. Being aware of this environment of consolidation, savvy leaders of firms having dominant (or good) product or

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Larry van den Berghe is the Founder and Principal of Strategies 2 Innovate. He has 20 years international experience in the aerospace and information and communications technology industries in England, Australia, Singapore and Canada. He has been an active manager and contributor in R&D and new product development in electronics, VLSI and software. He holds two US patents, one UK patent and has a number of publications. He is a Chartered Engineer (UK) and a Fellow of the Institute of Electrical Engineers.

Larry is also an adjunct professor for the Management of Technology @Distance graduate program at the University of Waterloo and a past faculty member with the Technical University of British Columbia. He has developed courses in new product development, strategic management of innovation and technology, entrepreneurship and knowledge management. His recent research on core competencies examined the adoption of emerging technologies for product innovation within the Canadian information and communication technology industry.

He holds a Ph.D. in Management Sciences (Management of Technology) from the University of Waterloo, a M.Sc. in Microelectronics (with Distinction) from Middlesex University, London, U.K. and a B.Appl.Sc. in Applied Physics from Curtin University, Perth, Western Australia. Larry has served as Chairman, Board of Directors, serves on the Education Committee of the Saskatchewan Advanced Technology Association and is V.P. Public Relations of a Toastmasters International Club.

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service positions will pursue an active strategy of acquisitions aimed at filling technology gaps in their strategic architectures<sup>56</sup> and absorbing complementary products that broaden their offering while tying into their core competencies.

In pursuing this approach, smart money is on those acquisitions that clearly separate the value component of the acquisition from the remaining clutter and pay only for the value acquired and at a discount that reflects the market softness.

Firms would do well to implement a core competence based

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acquisition strategy with its particular advantages. Firstly, such firms have already applied the rigor of core competence analysis to their own assets and have objectively determined the identity and size of their knowledge and skill bases.

It also equips them with the tools needed to assess the opportunity gaps. What is a product (or service) innovation for one small technology-based company can become a process component adopted by a large unit to improve its high-volume production<sup>55</sup>.

In addition, it enables firms to evaluate the potential fit between the acquisition target and their internal competence base and provides objective measures to separate out the key competencies of their acquisition targets and place an appropriate value on those selected areas.

Finally it provides a framework for implementing a smoother integration process and achieving the desired economies in the shortest possible time. In summary, such firms will outperform.

In the next issue, we continue this theme of merger and acquisition by looking at how acquisitions targets can prepare for this environment and get the most out of merger opportunities. See you then!

*Larry van den Berghe*

For more information and for references to the literature as identified by superscripts notations (e.g. 1) please visit our innovation strategy knowledge portal [www.strategies2innovate.com](http://www.strategies2innovate.com) and follow the links to “Knowledge References.”