



The Fox or the Hedgehog



Choosing between diversification and specialization

BY JOHN P. PALEN

There are conflicting views on whether business owners should specialize in something they do well or diversify their products and services.

Jim Collins, consultant and best-selling author of the book “Good to Great,” elevated the “hedgehog concept,” which he said is the intersection between personal passion, what you can be the best at in the world, and what drives your company’s economic engine.

Some critics of Collins’ interpretation of the hedgehog concept have argued that it’s a brilliant communications strategy to ensure that your company has a unifying vision, but it’s not a business strategy. They say that business owners must also operate like a “fox” and be ready to adapt to the changing environment or customer demands. To thrive, specialists may need some diversification. But diversifying can also become a distraction. It can also be incredibly successful. Choosing to specialize or diversify is unique to each company, but before you decide between the two, ask yourself some questions.

What resources will this require?

It takes people, time and money to specialize or to diversify. If you detract from your core business to launch a new product or service, quality could suffer, and people may burn out. If you hire additional people to focus on a new product or service launch, they must be integrated into your culture and processes to ensure a consistent reputation. Perhaps you want to grow through specialization by increasing output or market share. Then you may need to invest in new technologies or equipment, open a satellite office or hire more talent.

What is the market outlook?

Conduct ongoing market research to manage shifting sands. Stay informed on what your competition is doing and also talk to your customers about what their needs will be five years from now. If your industry or customer base shows signs of becoming obsolete, then remaining a specialist will require innovation. You need to adapt to market changes and reinvigorate your posi-

tion. If your core business is highly cyclical or vulnerable to market downturns, then a diversification strategy of your services or customer base may improve stability. Research shouldn’t be done in response to a crisis. Be proactive while business is good.

What is the early exit strategy?

Imagine best-case and worst-case scenarios. Be clear on when you will pull the plug on a failing venture. Factor in unexpected costs in the beginning. For example, if you are investing in equipment or software to pursue your goal, will the investment also require training or customization costs? What are the warranties or guarantees to support a change in plans if you are heading down the wrong path? Be aware of exit clauses in any contracts you may have to sign.

What’s the cost/benefit to the team or customers?

Throughout the planning stage and execution process, communicate your goals and the

LESSONS FOR SPECIALIZATION OR DIVERSIFICATION

1. Keep an eye on customer demands, market shifts or tech changes.
2. Take stock of your resources of people, time and money.
3. Develop a sound cost/benefit analysis for remaining a specialist or diversifying.
4. Communicate cost/benefits internally for any changes.
5. Prepare for an early exit if things don't go as planned.
6. Communicate features and benefits to customers.
7. Repeat best processes for future innovation or diversification.

costs/benefits of specialization or diversification. Most people aren't fans of change until the pain is too great to stay the same. Be transparent about the company's challenges and its opportunities. Develop clear messaging internally around the strategy and what it will take to succeed. Offer opportunities for feedback and buy in along the way. When it's time to reinforce the benefits of being a specialist, make sure that people recognize the high value of working with or for your business. If you diversify, communicate the value of that business strategy for the future of the company and career mobility.

What are best practices to repeat this success?

Once your company has had success with specialization or diversification, review the factors that made it successful. Which were in your control and which were merely excellent market timing? If anything was handled poorly, how can you improve it next time? Document the successful processes and repeat them.

I've seen specialization and diversification strategies work well *and* poorly. The main thing is to understand the reasons behind your decision and to make the best use of your resources of people, time and money. Whichever road you choose, be agile like a fox and focused like a hedgehog. 🦊



JOHN P. PALEN is CEO of Allied Executives and works with CEOs, business owners and executive leaders on leadership and business performance through peer groups, coaching and educational workshops. alliedexecutives.com

“BizRecycling is what you might call ‘A Bright Idea!’”

- Sue N., Werner Electric



BizRecycling.com
#RecycleBetter



Free consultations and \$10,000 grants available for Ramsey and Washington County businesses.

Ballard Spahr is a proud sponsor of the Made in Minnesota Manufacturing Awards.

Our Manufacturing Group helps clients anticipate and respond to shifting regulatory obligations, shareholder demands, throughput issues, and the need to simultaneously manage growth, risk, and innovation.

Ballard Spahr
LLP

www.ballardspahr.com