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Chasing Small Opportunities

This week's *BusinessWeek* includes a global business report highlighting the emergence of high quality, ultra-inexpensive cars. Demand for Renault's solidly built, bare-bones Logan sedan, which is sticker priced at just over \$7,000, handily outpaces their production capacity. Tata, an India-based automaker will release a \$2,500 car by the end of next year and other manufacturers are racing to follow suit.

Our Take

According to *BusinessWeek*, the takeaway is that Indian engineering, clever use of parts, and adoption of new digital technologies which eliminate expensive, physical prototypes could reshape how mainstream cars are designed. They missed the point. The salient lessons in this story are actually how poorly companies evaluate new opportunities and their tendency to turn a blind eye to projects which threaten their margins.

Most companies have a dollar threshold for new business opportunities, below which an idea is automatically rejected. Sometimes the number is institutionalized in a stage gate process; sometimes it is simply an arbitrary bar set by senior leadership at the outset of a new business exploration project. In both cases, the hurdle is usually too high. For large auto makers, the no frills market just looked too small. Similarly, I regularly see companies with revenues under \$2 billion requiring that new businesses generate \$40-, \$50- or even \$100 million annually after three years.

This is a counter-productive approach to new business which results in large-scale failures, frustrated business development groups and anemic new-product pipelines. Most companies which employ this approach end up either risking far too much on very few, huge bets, *a la* the Airbus 380, being buried under a sea of line extensions and incremental improvements, or both.

In contrast, a productive, successful new business engine strategically allocates resources across varying sized projects. Focusing on base-hits

