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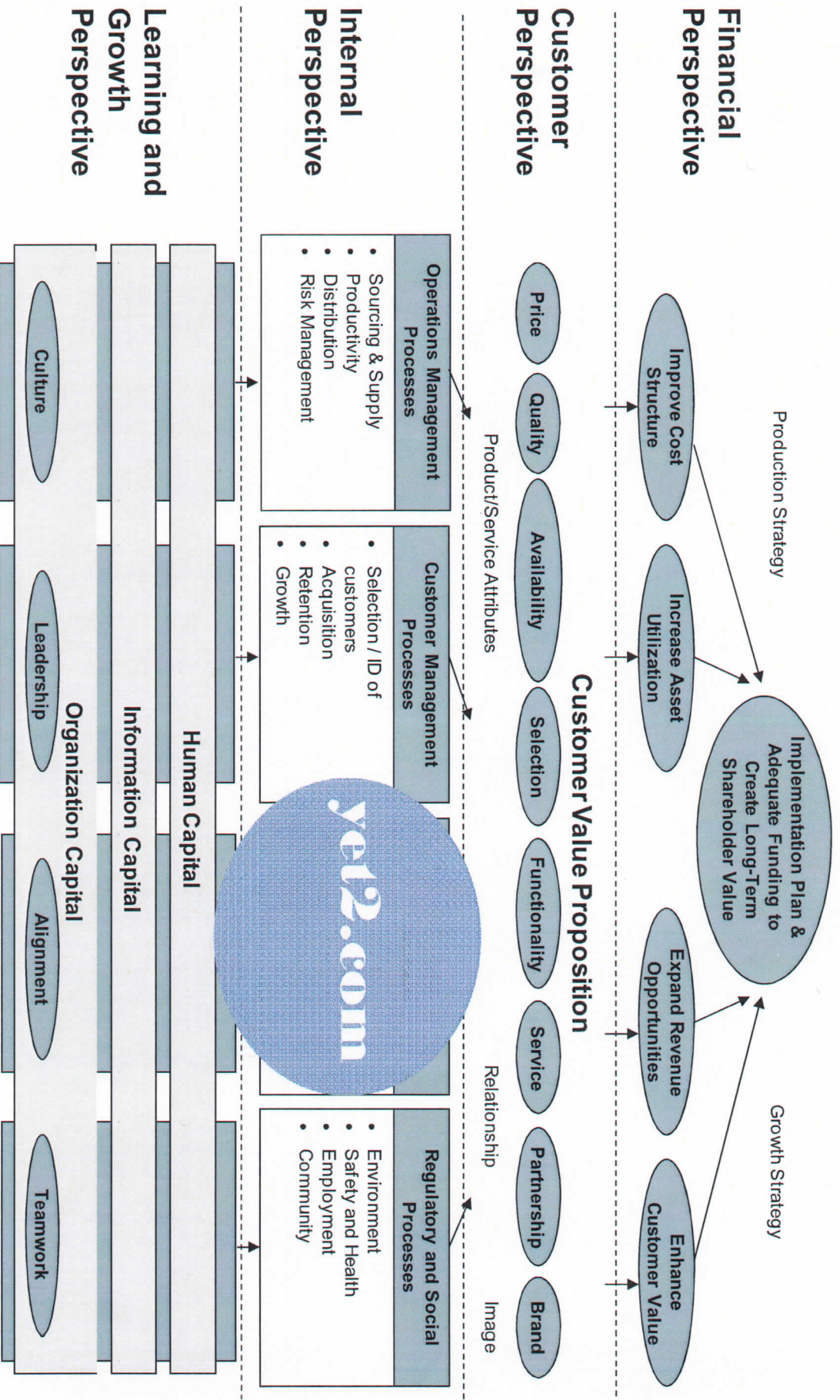
Founded in 1982

The 10 Rules for Innovation Success

Established Middle Market Companies Require Foundational Changes
to Evolve or Transform Their Business Models

September, 2010

How a Business Creates Value



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Confidential: Business Growth Alliance 2009

HENRY CHESBROUGH

NAMED A "TOP 50 INNOVATOR" BY SCIENTIFIC AMERICAN

OPEN

Business Models

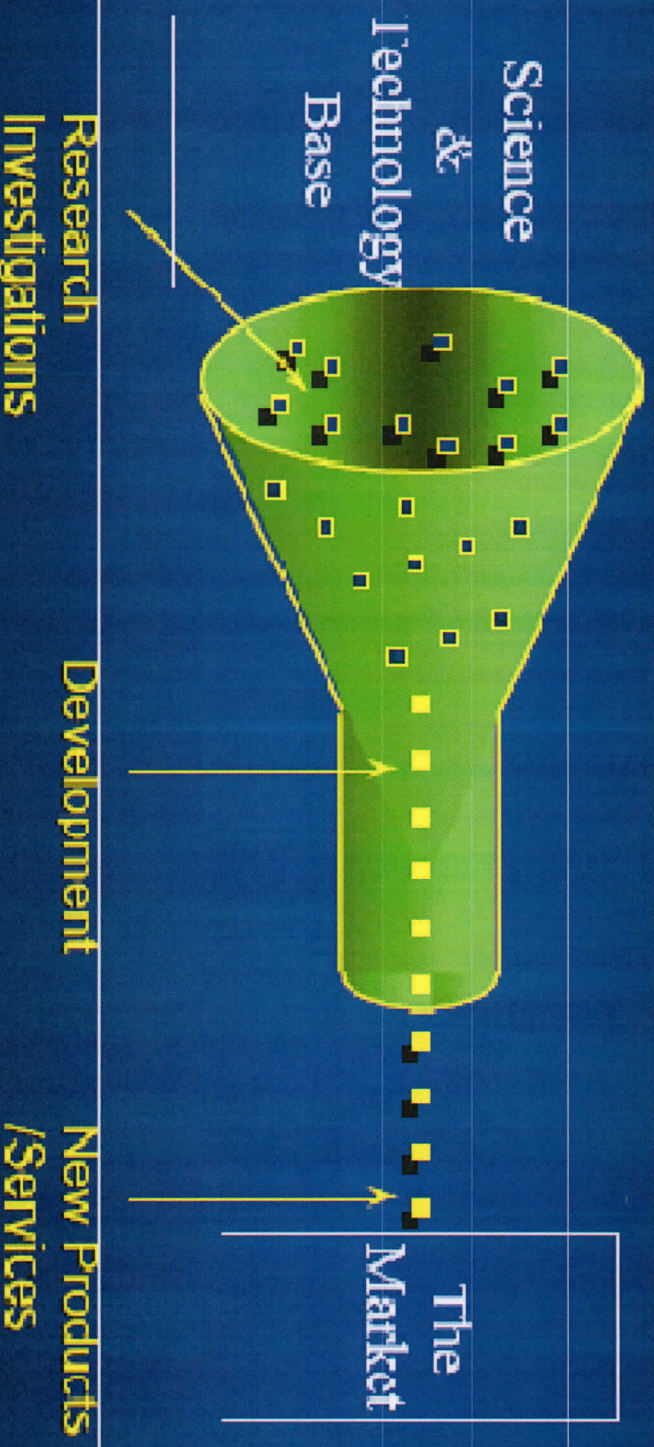
How to Thrive in the
New Innovation
Landscape

HARVARD BUSINESS SCHOOL PRESS



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The Current Paradigm: A Closed Innovation System



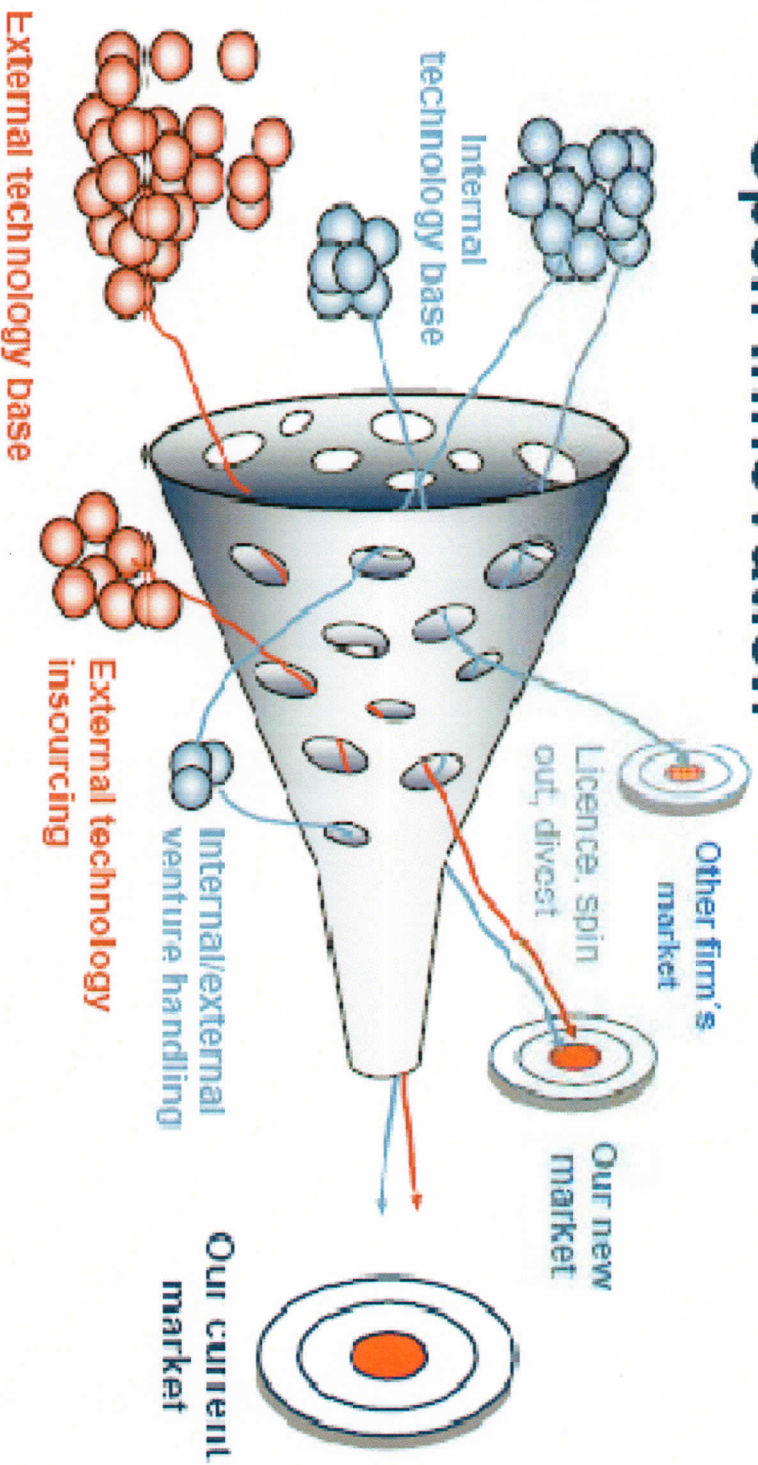
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Open innovation



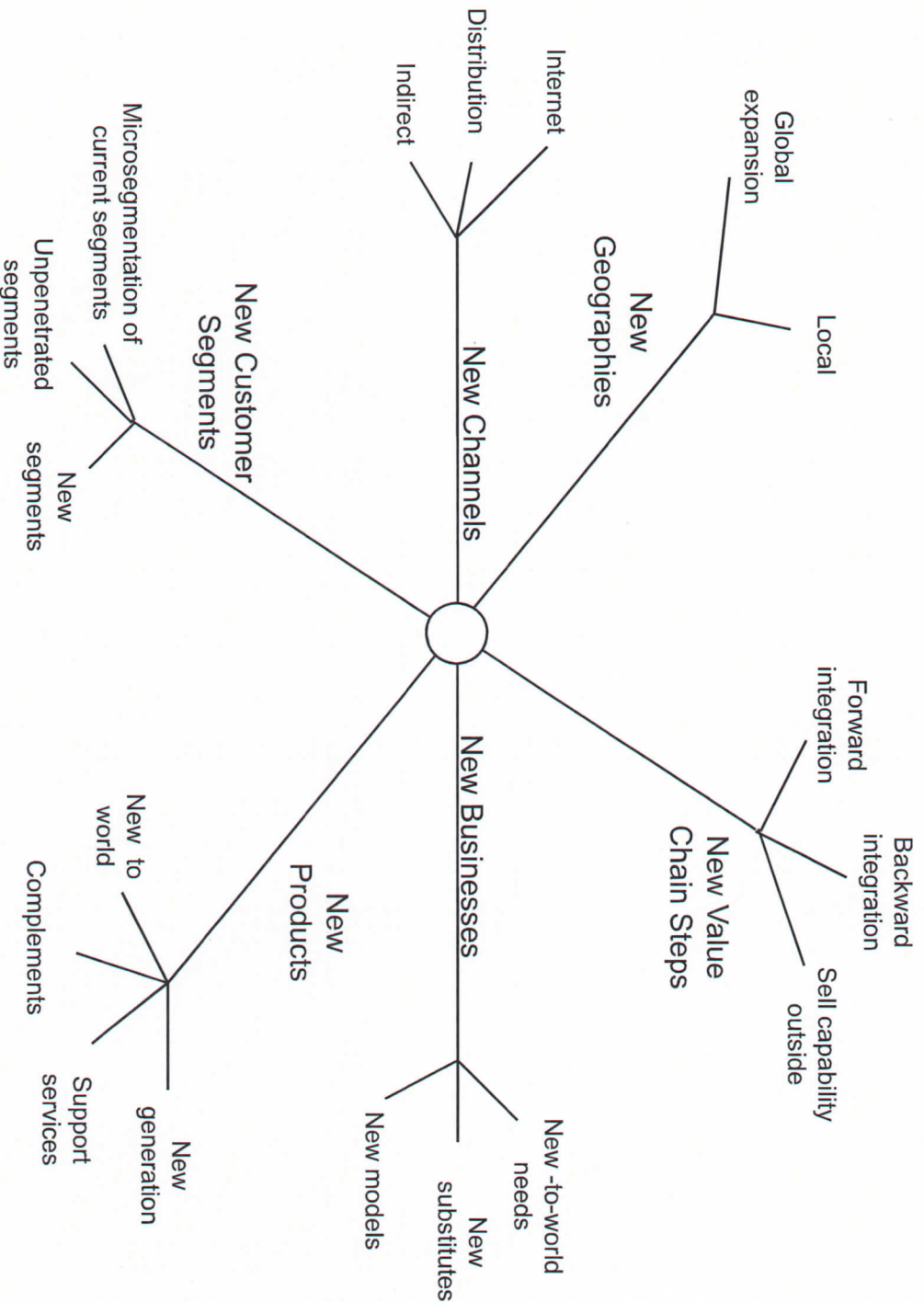
Stolen with pride from Prof Henry Chesbrough UC Berkeley, Open Innovation: Renewing Growth from
 Disruptive R&D, 10th Annual Innovation/Convergence, Minneapolis Sept 27, 2004

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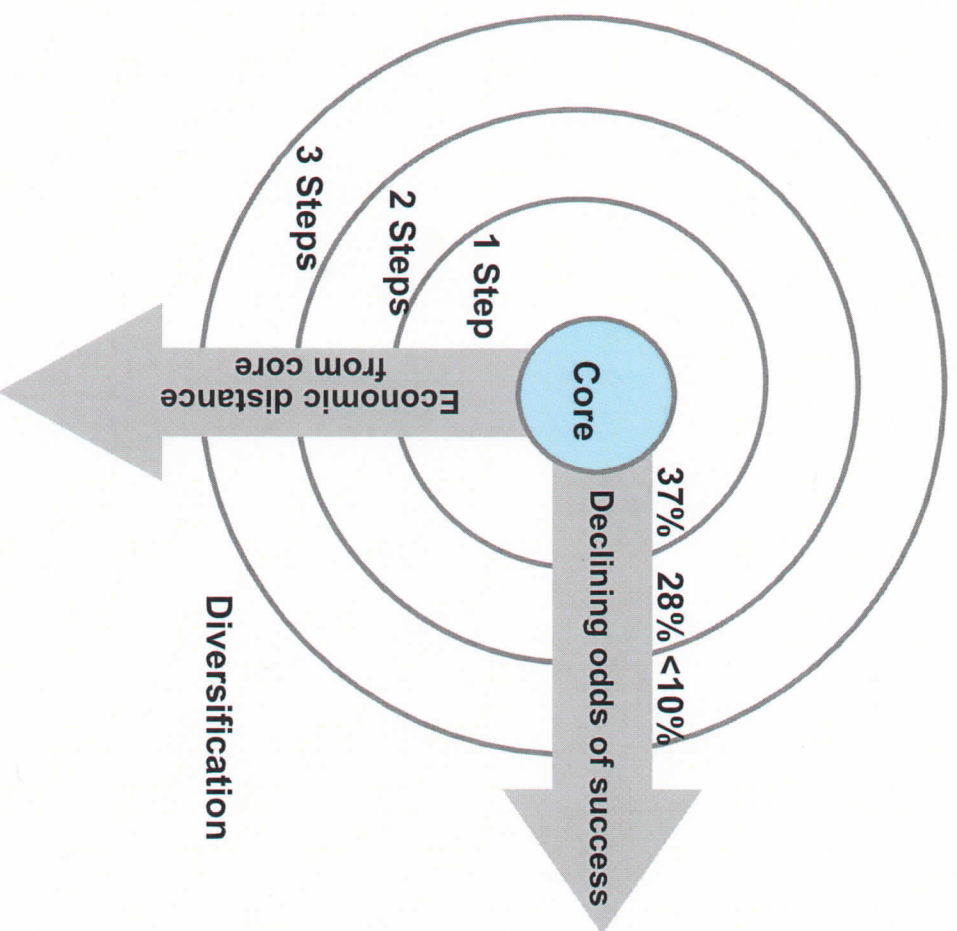
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New Initiatives Typically Move A Company Away From Core



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Thorough Assessments and Careful Execution of Business Model Changes Are Needed Since Success Declines with Distance from the Core



Source: Beyond the Core 1/04



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Three Basic Challenges When Transforming Established Companies through Innovation

1. Forgetting - Those who remember the past are condemned to repeat it
2. Borrowing - New Initiative must borrow those assets of CoreCo that will give it competitive advantage, such as manufacturing capacity, sales relationships or brand
3. Learning - New Team must learn how to succeed in a new and uncertain environment



10 Rules for Success

1. Find the new idea, but recognize that is only Step 1
2. Sources of organizational memory are powerful, but business model change requires understanding the present and positioning for the future are necessary. New resources are likely to be required. Often a separate division or new company, and physical separation (offices, production space)
3. Established middle market companies can be more nimble than large companies and have better infrastructure than start-ups; use this to your advantage
4. Strategic experiments always face critical unknowns
5. A new organization or team may have to be built from scratch



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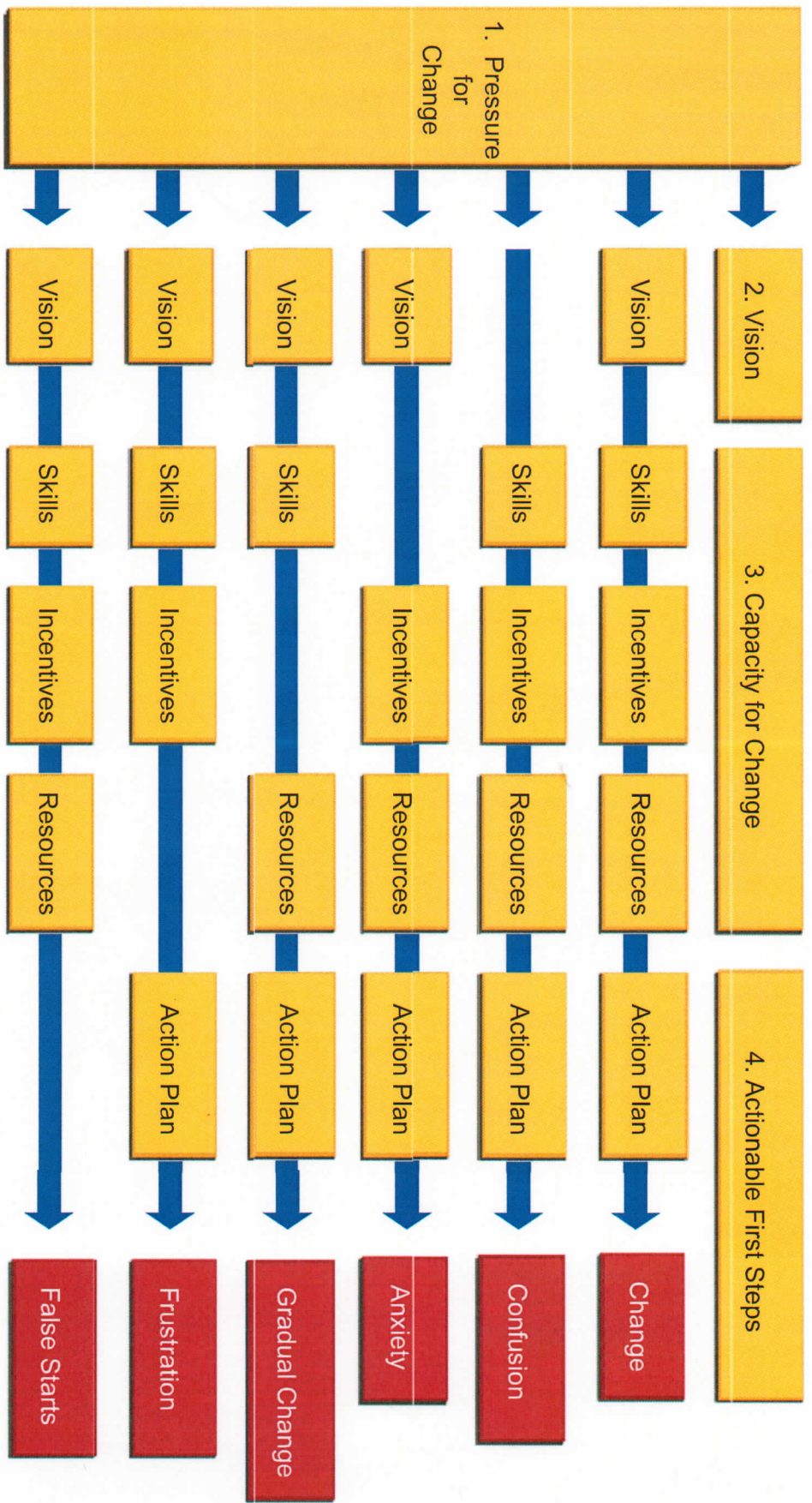
10 Rules for Success

6. Managing tensions between existing CoreCo and the New Initiative is **JOB ONE** for senior management / owners
7. New Initiative needs its own planning process
8. Interest, influence, internal competition, and politics disrupt learning
9. Hold the New Initiative accountable for learning and not results
10. Companies can build a capacity for breakthrough growth through strategic innovation



Four Prerequisites of Change

When Any Prerequisite is Missing, Missing, Change Cannot Occur



Source: HP way, Barry Newland, May 1997.