



THE CONFERENCE BOARD



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## *Mid-Market Management Trends*

# Swimming with the Big Fish

by Tommy Peterson

Managers of mid-market companies that venture into waters trolled by Fortune 500 leviathans have to paddle as quickly as they can to survive and grow. Whether they're competing with larger organizations or engaging with much bigger companies as clients or partners, it's easy for small and medium businesses (SMBs) to feel like small fry when they are overmatched in financing, staff size, geographic reach, and brand recognition.

The formula for business success, however, doesn't change much regardless of the size of the company, according to entrepreneurs and managers of thriving mid-market firms. Execution and responsiveness will carry the day and the deal. "Big customers dictate the processes and providers get in line," says Dave Peterson, chairman of The North Highland Company, a management consultancy in Atlanta. "But you still decide how your company chooses to fulfill those processes, and smaller companies have more flexibility to do it."

Size doesn't necessarily work against mid-market companies competing or engaging with larger companies, Peterson adds. "When you win a customer contract, size doesn't determine how well you fulfill it or customer satisfaction. And when companies compete for deals, it's not about size, it's about how they go to market."

Mid-market companies that successfully meet the challenges in arenas dominated by bigger players have some common characteristics. These businesses:

- May tailor their presentation in the market for tactical advantage, but never lose sight of the core value proposition that propelled them into business in the first place;
- Retain the advantages inherent in entrepreneurial cultures as they grow;
- Manage employees and the hiring process as they evolve, so that the skills available and the opportunities for employees evolve as well; and
- Make sure their planning, staffing, and infrastructure stay ahead of their growth.

"There are differences in how you do it, but in the end, it's all about delivering," says Doc Parghi, senior vice president at AppLabs, Inc., a software testing firm in Philadelphia that serves major financial institutions among other customers of all sizes. "You've got to listen to the customers and get the job done."

## Focus on What Differentiates Your Company

Most mid-markets have been built around a product, service, or approach that stakeholders believe sets them apart. Growing companies are distracted from their “core DNA” at their peril, says Homa Bahrami, senior lecturer in the Organizational Behavior and Industrial Relations Group at the Haas School of Business, University of California, Berkeley. “I tell mid-cap companies, ‘know your core strengths and don’t try to be everything to everyone,’” says Bahrami. “The worst case is to lose your focus. You have to clarify your unique strengths and build on them¾that doesn’t mean a list of 50 attributes, but only one or two. Then nurture those strengths and leverage them in the market.”

At AppLabs, finding ways to demonstrate the company’s exceptional technical expertise to enterprises that demand ROI and to smaller customers who are “just looking to get their product released” is the key to successful engagements, Parghi says. “As a technology company, we’re competing with the one-stop shopping offered by the huge IT services companies,” he says. “We have to stay razor sharp on our message that we just do testing, it’s our only business, and we’re the best at what we do. That’s how we get our foot in the door.”

To build its best-of-breed brand, AppLabs collects customer references, produces webinars that communicate the company’s leadership in the field, and conscientiously cultivates relationships with IT analyst firms that evaluate products and services. It has also developed performance and ROI metrics that confirm the superiority of its services to satisfy the enterprises.

Ultimately, he and his colleagues work hardest to maintain, not just tout, the technical edge they built the company upon, Parghi says. “If we don’t maintain our advantage, we’re losing sight of why we’re in business.”

## Appearances Count

Mid-markets need management clever enough to minimize the gaps in scope and resources between a small company and bigger players in the market. There are plenty of ways that SMBs can boost credibility as they engage with larger organizations, according to Lawrence Gelburd, of the Wharton School at the University of Pennsylvania.

**Use cost accounting** wherever possible and highlight the relevant results to enterprise clients. Large corporations parse costs carefully and their decision-makers feel more comfortable when vendors and service providers do so as well.

**Name every program** and practice you use—not just your home-grown order fulfillment software, but also your proprietary “deliver or die” application. Enterprises name and brand as much as they can and “it makes them feel better” if your small company does, too, says Gelburd.

**Speak the language of business**—stress the fact that your company ascribes to “best practices,” even though you’re fairly certain that few companies set out to follow mediocre practices. This will prevent your company from becoming extinct in the “business ecosystem.”

**Update your business cards** and your collateral materials whenever you open a new office, even if it’s staffed by two people. No one will ask how big your Mumbai office is, but some might notice your global reach.

**Use industry conferences and conventions** to build your brand. Managers at SMBs should propose topics for panels and volunteer to moderate them—they will burnish the brand of the company and stand a good chance to become “thought leaders” themselves.

**Encourage comparisons to larger competitors**—this lets them and potential clients know you’re in the big leagues.

### *Carefully craft your message*

Successful mid-market companies hold on to their core strengths even as they color and shape the ways they present those strengths to potential customers, says Lawrence Gelburd, a lecturer in the Wharton Entrepreneurial Programs at the University of Pennsylvania. “Small companies have to act like chameleons, only in reverse—instead of blending in, they’re trying to stand out,” Gelburd says. “They don’t change on the inside, but sometimes have to change the way they present themselves to get the attention they need.”

In 2001, five veteran senior managers from Aetna, one of the nation’s largest insurance companies, started Health Advocate, Inc. The new venture was based on a “simple but profound idea,” according to Martin Rosen, chief marketing officer and a founder of the suburban Philadelphia firm. “When you look at other aspects of society, you have a go-to person,” Rosen says. “If you have legal issues, you go to a lawyer; if you have financial issues, you probably go to a financial planner or an accountant. But when it came to health care, you didn’t have the same sort of person to advocate for you before our service was available.”

Health Advocate offers client companies an advocacy and assistance service that guides employees and their families through the intricacies of the health care system from both the clinical and administrative perspectives. As a result, employees and family members have better medical outcomes and lose less work time to illness or to caring for a sick child, spouse, or parent, while client companies see improved employee productivity and reduced medical costs.

Health Advocate’s driving mission is to build a successful business by helping people, as well as providing a business rationale for employers paying for the service, Rosen says. “Employers are looking for value and want to make sure that the money they are paying for employee benefits is contributing to their overall mission. The premise behind our service is that it helps improve productivity, reduces medical costs, and enhances overall healthcare outcomes.”

### **Keep the Entrepreneurial Spirit**

Successful start-ups and mid-market companies are continually growing, and their cultures evolve to accommodate that growth. “Any small company starts off with the great advantage of being able to do almost everything informally, which is very energizing,” says Jon Katzenbach, founder and senior partner of Katzenbach Partners LLC, a consultancy that specializes in techniques that foster breakthroughs in organizational performance. “Small companies have the flexibility to adjust and customize their offerings more readily, which helps them compete and makes them more accommodating partners.”

But the freewheeling informality of an entrepreneurial culture eventually gives way to more structured business processes as companies get bigger. SMBs should do all they can to maintain the flexibility that contributed to their early success and continues to provide a competitive edge, according to Katzenbach. “You have to go through the shift toward formality at some point because you get too big to do things in a nice informal, responsive way,” he says. “But if you’re not careful, you lose the best part of your culture for your people, one that’s very valuable to your customers as well.”

His own firm, which currently has about 200 employees spread across four locations in the United States, is going through this transition. Because Katzenbach Partners has global enterprises as clients, the company plans to expand to Europe and Asia, a step that will require more formal processes to maintain consistency across the organization. “The ongoing challenge is to integrate the formal and the informal. If you swing too far either way, you lose the informal advantage,” Katzenbach says.

### *Balancing flexibility and formality*

Mid-market companies typically have an “aversion to bureaucracy,” and once they start down the path of more formal processes they often have trouble maintaining the balance with flexibility and responsiveness, says Bahrami. She suggests that, as they evolve, companies start by identifying a few areas that may benefit by the use of disciplined processes—for example, product development or customer relationship management. More formal processes can be added, if necessary, but too many processes can reduce the company’s agility or smother employees’ sense of freedom and responsibility, she says. “The extremes don’t work for mid-cap companies,” Bahrami says. “The mix of formal process and real-time flexibility is really important.”

Govind Kizhepat is founder and CEO of NetXen, whose high-speed, high-bandwidth microprocessor technology has led to partnerships with IBM, Dell, and Hewlett-Packard. With all the company’s approximately 200 employees pushing to get the next product out, he has little time to contemplate the culture of the firm. A major customer can dictate how it would like a process to unfold, and then Kizhepat and his management team implement those ideas. But even in small companies, there are always internal processes that need to be followed. “I’m a practical guy,” says Kizhepat, who held senior management positions in several large technology companies before becoming an entrepreneur. “From my experience, I know what works and what doesn’t. We try to make a practice of what works.”

## Don’t Make Acquisition Your Mission

One of the common ways a mid-sized company deals with Fortune 500 companies is to be acquired by one of the giants. For some entrepreneurs, acquisition is a goal from the start. For others, it’s a way out of financial trouble. And sometimes being bought up quite simply represents a deal that’s too good to refuse.

The potential for acquisition is a fact of life for small or mid-sized technology companies, but shouldn’t be part of their strategic plan, says NetXen CEO Govind Kizhepat. “One mistake people often make is positioning their company for acquisition,” he says. “You position your company to win. If, along the way, there are opportunities to partner with a bigger company by way of an acquisition, so be it. But always play to win.”

When those winners are acquired, their transition from entrepreneurial independence into a larger corporate structure is managed carefully, says Moni Miyashita, IBM’s managing director in charge of mergers and acquisitions integration.

The most important element IBM evaluates when it eyes an acquisition is how the smaller company aligns with the business strategy of the \$100 billion technology services company, she says. To ensure a successful integration, challenges associated with the blending of company cultures get significant attention both during the due diligence process and as the deal is executed.

Companies that fill a technology gap are often integrated quickly and gain sales momentum from synergy with IBM, Miyashita says. “If they’re taking IBM to a new market or a new business model, we’ll be very protective of their culture because it clearly contributed to building the value that made the company attractive to us.”

IBM has backed away from very few deals in which culture was considered a key element of the risk. “However, if there is a significant difference in a company’s business practices and how they deal with clients, employees, or partners, even if they have a great technology, we may not pursue the deal,” Miyashita says.

Change flows both ways in an acquisition. Business practices and processes at IBM have been enhanced, changed, or added due to the influence of acquired companies, says Miyashita, who also noted that IBM has acquired about 70 companies in the past five years.

One thing that doesn't work, and that he will avoid at NetXen, Kizhepat says, is building an organization in which employees are told what they have to do and how they must do it. "You have some processes in place—you can't run completely open ended," he says. "You tell people what has to be done, but you leave it to them to find a way to do it. That way you get the benefit of their creativity and free-thinking."

## The Value of People

Finding ways to sustain the creative input of current employees is just one of the challenges for growing mid-market companies in competitive markets, Bahrami says. Companies need to provide opportunities that keep employees engaged and invested in the success of the business, even as the organization's need for new skills evolves.

"Start-ups attract a particular kind of employee; they like the excitement, the responsibility, the chance to be a big fish in a small pond," she says. "Their intense engagement gives start-ups an advantage. For companies that want to keep that edge as they grow, they have to keep asking, 'what is our value proposition for employees?'"

For Katzenbach, who spent almost 40 years at consulting giant McKinsey & Company before founding his company a decade ago, creating value and opportunities for employees is the main driver for expanding the business. Early on, Katzenbach Partners was able to attract "unique talent" because of its small, "freeform" environment. "As a result, there are many really intriguing people working here, and they attract others like them," Katzenbach says. "When you have those kinds of people and want to keep on attracting them, you have to grow to continue to give them interesting opportunities, as well as maintain the elements of an informal culture that remain important to them."

North Highland is built on the proposition that consultants' professional and personal satisfaction should be inextricably entwined with customer satisfaction. The company, with 17 locations in the United States, is wholly owned by its approximately 700 employees through an employee stock ownership plan (ESOP). North Highland is a member of Highland Worldwide, an international partnership in 12 countries. Part of Peterson's role as chairman is to travel among its offices answering questions and gathering information from employees, while reinforcing the company's core message to them. "They've got plenty of skin in the game and we're always looking for ways to give them more," Peterson says.

Rosen and his founding partners at Health Advocate knew early on that the point person in the service should be a registered nurse—a professional experienced in dealing with both medical and administrative issues and committed to helping people. "Having nurses on the front end pays terrific dividends in terms of connecting the dots for members—even if there's an administrative issue, there's always a clinical component," Rosen says.

A prolonged shortage of nurses in the United States has translated into stiff hiring competition, but Health Advocate's business model has attracted the people the company needs to make it work, Rosen says. "One of the reasons nurses want to work here is that they feel empowered in ways they say they aren't when they're working a shift or for an insurance company."

Now that Health Advocate serves more than 4,000 client companies, with 14 million people eligible for services, Rosen and the rest of the management team recognize the importance of maintaining the sense that employees directly affect both the lives of members and the success of the business, he says. To that end, the company emphasizes employee involvement and ongoing training, and consciously de-emphasizes hierarchical roles to keep communication and ideas flowing.

### *Audit the workforce as the company grows*

As any company grows and takes on greater competition, its skills and staffing needs are likely to change, Bahrami says. She recommends frequent talent and organizational audits. “Take a close look at the skill sets of your key employees and make sure [those employees are] in the most effective roles,” she says. “Identify your talent gaps; the ‘new blood’ you need to bring on board. They’re probably different than when you were a start-up.”

And leadership can’t be ignored in the audit, Bahrami says. The entrepreneurs who nurture their companies during the early phases may not be best suited to lead larger, more structured organizations. “Very few leaders can scale from nurturing a start-up to taking on the challenging task of leading a mid-sized adolescent company,” Bahrami says. “The best of them tend to know, often with the nudging of their board of directors, when to relinquish or change their roles.”

### **Stay Ahead of Your Own Success**

Mid-market companies that ride the wave of their own growth rather than anticipating the requirements of their expanding businesses risk a tumble in any market, Rosen says. Large companies avoid deals with mid-market firms that can’t clearly demonstrate that they can execute. Inadequate resourcing leads to scrambling, which jeopardizes new accounts, especially with large clients. It also threatens service levels and undermines the confidence of current clients, Rosen says.

Health Advocate currently occupies more than 40,000 square feet of office space, after a 17,000 square feet office expansion in 2007. The company is again looking for more space to meet business projections, Rosen says, and a staffing team is continually on the lookout for talent in what has become a constant hiring search.

“We have always taken the position that we can’t afford to hire people after the fact,” he says. “The physical infrastructure has to be in place; and we’re constantly enhancing our information systems and technology that are essential to supporting our ongoing growth.”

Parghi at AppLabs acknowledged that physical and technology resources must be provisioned with growth in mind, but he cautioned against building too large a staffing cushion.

“Space and tools are different from people—the physical infrastructure you need can be and should be ready for when you need them,” Parghi says. “You can have a 15 percent bench of people above the minimum, but beyond that is not only expensive but people lose their excitement and focus.” And without those, the ideas that are the foundation of continued growth dry up. Many mid-market companies stall after early success because they don’t pay enough attention to their product or services pipeline, Bahrami says.

“You have to move beyond the ‘original’ idea that paved the way for the company’s initial success; you have to migrate, expand, and evolve your product/service offering,” she says. “A unique product today won’t be unique for very long. Everything has a short lifecycle in competitive markets and your future depends on your next product. Mid-caps have to keep their pipelines fresh and full.”

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## Conference Board Research Devoted to Mid-Market Companies:

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