

Economic Gardening



WHY EG WORKS

Over the years we have had two reactions to Economic Gardening. First, professionals comment that it has more depth, sophistication, complexity and unexpected elements than one might have guessed on the front end. Many people come into the program thinking it will be a simple business assistance operation (business plans, financial ratios, etc.) to grow local businesses, and they have no idea they will be introduced to complex adaptive systems, commodity traps, Stage 2 companies, temperament, mechanical v. biological systems, public signals of volatility, sales windows, unconsolidated markets and the sophisticated tools like database research, GIS mapping, digital marketing competitor charts, listening posts and network mapping.

The second reaction is the appreciation of how consistently the program produces good outcomes at a very low cost. This is no accident. The high success rate of the program comes from a deep understanding of the economic forces at three scales in our economy: the nation, the community and the company. We based the program on these beliefs:

THE NATIONAL ECONOMY

Free enterprise is a complex adaptive system

- Free enterprise was not designed; it is an emergent complex adaptive (biological) system with characteristic signatures.
- Among these are increasing returns and lock in (winners continue to win) and power laws (80/20 rules where a few account for much and many account for a little bit).
- The practical outcome of these signatures is that wealth tends to concentrate. It is a system characteristic, independent of people.
- Capital moves easily from one opportunity to another, and thus gets first call on value created by a company. Most of the workforce looks like expenses reducing profit.

Commoditization is the cause of poverty

- If products or services are identical (commoditized), then the only differentiator is price.
- If lowest price wins, then management focus is on reducing costs.

- Labor is a major cost item in most companies. Managers look for ways to lower labor cost by finding cheaper labor (non-union, abroad, rural areas) or robots.
- People are poor because they are a commoditized expense in commoditized industries.

Innovation is the source of wealth.

- Creating a new value with few or no competitors creates a temporary monopoly.
- Profit margins are temporarily higher because there are no other options.
- New products require the creation of new labor skills which command higher salaries and wages.
- Competitors will try to commoditize the new innovation by replicating it and then making it cheaper.
- To maintain a high income over the long run requires constant innovation.
- The national economy has bursts of innovation, followed by consolidating commoditization.

THE COMMUNITY

In any community, the faucet must run faster than the drain

- A bathtub is an analogy for a local economy, where the water is like the money.
- People in a community buy things from each other, moving water between various compartments (businesses) in the tub.
- The amount of water, however, is constant in the tub (the local market).
- A local market business is always limited by the size of the tub.
- However, some things are sold outside the community, bringing new money in (faucet)
- And some things are purchased from the outside world (e.g. autos), sending money out of the community (drain)
- If the wealth of a community is to grow, the faucet has to run faster than the drain.

Growing a community's jobs and wealth requires selling innovation to external markets

- Selling to external markets, brings in new money to the community.
- Selling innovation to external markets brings in more money than selling commodities
- Trying to compete by being the lowest cost place to do business drives down the standard of living.
- If other communities have even lower costs, then the cost of labor, land, power, taxes, etc. must be reduced, meaning salaries and wages are driven down. The tax base for essential public services like police, fire and streets is reduced.

- The community gets caught in a race to the bottom and a downward spiral of decreasing returns (commodity trap).

Stage 2 companies play an outsized role

- Stage 2 companies are about 15% of the total and yet account for about 40% of the jobs.
- Stage 2 companies are typically selling to external markets.
- Stage 2 companies have some proof of market (\$1 million in sales) and some proof of management (10 employees).
- Stage 2 companies are beyond survival issues; they are focused on scaling.
- Stage 2 companies need sophisticated information and analytical frameworks to make strategic decisions.

THE COMPANY

Increased sales are at the heart of job and income growth.

- Economic development is about creating good jobs and new wealth, which in turn depends on local companies increasing sales.
- Increasing sales requires finding ripe markets (growing, emerging, disrupting) and customers that are in volatile situations where change is going on.

Marketing and selling have changed from “creating motivation” to “intercepting investigations.”

- Virtually every purchase goes through a four-step process: motivation (I need or want something); investigation (what are my choices?); evaluation (which is best?); and selection (I’ll take this one). This is true whether you are buying a million-dollar machine or buying a snack at a convenience store.
- Old economy sales focused on *creating motivation*. The idea was that the salesperson will make a cold call, create the motivation to buy (step 1) and close the sale (step 4). It assumes there is no investigation or evaluation of options. It hardly ever worked because much of the market is stable. Virtually everyone has a vendor, and most are happy with their product and their vendor. Proposing change introduces uncertainty that could go wrong and maybe even damage your career.
- Opportunity lies in areas of disturbance. In volatile environments, something has changed to create a motivation to make a purchase. It might be that the company was acquired by another, or a new CEO was hired, or a lawsuit was filed, or a new product

was introduced by the competitors. Regardless of the nature of the change, it has motivated the prospective company to start the investigation for a solution.

- So Economic Gardening focuses on identifying people who are investigating options (step 2). We look for public signals of volatility in which a sales window has opened, and the probability of making a sale will be much higher than a sales call before or after the sales window.
- We have three channels to make contact with this high probability customer.
 - Channel 1 is outbound (or the cold call). We develop a universal list of a targeted industry and then we use listening posts to spot signals of change to narrow the list down to those in the market today.
 - Channel 2 is inbound (search engine optimization for the web site. A Google search is a sign of investigation at this very moment.).
 - Channel 3 is watering holes (physical and virtual gathering places where people concentrate to talk about a given subject). This activity can be early stage investigation.

IN A NUTSHELL

Economic Gardening gets consistent results because it understands and works within all three economic scales that affect economic development: the nation, the community and the company. The program can be summed up in a single sentence: Provide strategic information and frameworks to help local, Stage 2 companies export innovation to customers in volatile environments. That sentence does the following:

- ✓ Focuses on wealth-creating innovation, not poverty-creating commoditization
- ✓ Focuses on the community faucet running faster than the drain
- ✓ Focuses on Stage 2 companies which are outsized producers of jobs
- ✓ Targets ripe markets (growth, disruption, unconsolidated)
- ✓ Identifies customers that are in the market, by looking for public signals of volatility
- ✓ Uses five strategic frameworks to identify and resolve root problems that prohibit growth

It is important to check all the boxes of these interrelated systems. Economic Gardening does, and that is why it works.