

# **Business ‘Viagra’ – How Some SMBs Sustain Remarkable Performance?**

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## **Introduction**

Business leaders today are clamoring for ways to achieve and then to sustain exceptional performance. They are posing the question, is there a ‘viagra’ for business that enables sustained performance? More importantly they want to know the secret for sustaining consistent positive business results. The question is has Stuart Hart puts it, “when you hear the terms ‘sustainability’ ...what comes to mind?” Hart applies the term sustainability to shareholder value and uses a matrix that allows business leaders to view their decisions along two axes, one that determines payoffs present and future, and the second axes identifies internal company activities or activities that are external to the firm (Hart). James Cashman, puts it in a different yet quite compelling way, “becoming successful isn’t the end of the journey: Remaining successful is the perpetual goal”(Cashman).

This paper will provide a ‘deep dive’ analysis of several small –to-medium size businesses to determine what strategic initiatives that they used to sustain exceptional business performance using the Value Zone business model. This model will provide qualitative case study evidence to analyze how these strategic initiatives were used for sustained performance.

## **Literature Review**

The question for those organizations that provide products or services is, how do we sustain performance by providing our clients exceptional value? How do we differentiate our products

and services and then sustain that distinction? A body of marketing research has begun that provides some insights into the answer to this question. According to Kevin Coyne of McKinsey and Company (1989, p. 69) many executives are skeptical suggesting that these executives wonder, “ Can companies truly distinguish themselves from competitors based on greater service?” Coyne (1989, p. 70) argues that service investments should be expected to produce a value to customers disproportionate to the cost of investment and a demonstrable change in customer behavior.” However, more recent market researchers (Kamakura, et al. 2002, p. 295) argue that “the strategic focus has been on maximizing profitability by optimizing operational resources allocated toward service quality efforts.” Bolton and Drew (1994) discussed a critical requirement for comprehensive business models that measure customer perceptions of value and business outcomes.

Dr. David Tarantino (2005) in a research paper drew an interesting conclusion based on his research related to Value Innovation. He asserts that “the extent of a business’s departure from the conventional logic of its industry can be seen in what is called a value curve...A value curve is a graphical depiction of the way a business configures its offerings to customers and the relative value to customers.” His research was done in the context of the healthcare industry, however, in principle what he asserts has great weight. He further states that “the most successful provider have learned that developing unique and differentiated solutions for their patients is the key to changing the shape of a value curve. Those who are successful gain dominance in the market. Value innovation allows you to develop that advantage.”

Stuart Hart (2005) discusses value in the context of sustainability. He poses an interesting question in his research, how do you define sustainable? He suggests words like ‘renewable,

responsible, environment, society, clean, zero waste or financial viability.’ He uses the model shown below (Figure 1) to define sustainability in terms of stakeholders. He asserts that certain activities could begin today and payoff sometime in the future. He describes internal activities as it relates to “resources, technologies, capabilities, competencies, and people.” He describes external activities as it relates to “suppliers and customers.”

	Today	Tomorrow
Internal	<div style="border: 1px solid black; padding: 5px; text-align: center;"> <b>Cost &amp; Risk Reduction</b> </div>	<div style="border: 1px solid black; padding: 5px; text-align: center;"> <b>Innovation Repositioning</b> </div>
External	<div style="border: 1px solid black; padding: 5px; text-align: center;"> <b>Reputation Legitimacy</b> </div>	<div style="border: 1px solid black; padding: 5px; text-align: center;"> <b>Growth Path Trajectory</b> </div>

Source: *Research Technology Management*; Sep/Oct 2005; 48, 5; ABI/INFORM Global

A powerful conclusion about sustainability that Hart (2005) draws from his research is that “while increasing shareholder value is important, innovation and re-positioning are also critical. Wall Street not only looks at how efficiently companies run the current assets, but at how well they re-position, acquire new capabilities for the future, and tell their story of growth.”

In my research paper I use a business model that I have created called the Value Zone to draw similar conclusions when examining several SMBs. I liken my findings to ‘business viagra.’ The drug Pfizer introduced to markets revolutionized the sex lives of millions of middle-aged men by enabling them to produce sustained performance. I believe that in a similar sense businesses that continue to grow and produce positive business results are constantly renewing themselves, reinvigorating their prowess in the markets that they compete in.

## **Methodology – The Value Zone**

Many companies talk about creating value or being a value-added company. The business leaders that run these businesses sincerely believe that all businesses are buying and selling in the marketplace in an attempt to be profitable and to some extent their claims are true. However, this research suggests that there is more to it than that. Now more than ever before businesses and business leaders need to know what best practices are being used by successful businesses that have sustained remarkable results for long periods of time. How do they sustain high organizational performance year in and year out. How do companies succeed against intense competition in their industries on a consistent basis? What is the ‘blue pill’ that empowers them for sustained performance. It is clearly evident from this research that these best practices strategies lead to more efficient management of their organization’s assets, and most importantly, *create meaningful and sustainable value.*

In this study we use a simple yet powerful business tool that can help managers to build successful brands with sustainable results. The Value Zone is a compelling approach which will help businesses provide products and services that will be highly valued in the marketplace. As executives craft new strategic initiatives for their organizations, the Value Zone methodology will assist the executive in forecasting and measuring business outcomes. Through the use of the Value Zone methodology over time, businesses will be able to identify faulty strategic practices and quickly develop and execute new initiatives.

During this study we repeatedly asked, how do successful SMBs create and sustain value in the pursuit of its strategy? What is their ‘business viagra’? Some companies create high value, but most create low value. How do the companies who create high value do it, and perhaps more

importantly, how do they sustain it? In the Value Zone methodology, we will identify just how they do it and how they sustain it. We will examine a number of areas where value can be created, and tell you just how they go about being so successful. Areas we will examine include:

- Financial Performance
- Market Growth
- Innovation
- Efficiency
- Quality
- Competitiveness, and
- Value Zone Practices.

We'll go into more detail on each of these areas a little later in this paper, but for now let us just say that an organization's positioning in the Value Zone depends on how well and how long the organization achieves success in these factors. Through studying what helps a business achieve high levels in the Value Zone, organizations may learn and adapt the best practices to inform their own strategic planning.

The Value Zone methodology is a tool that measures the financial performance of a business and determines the customer value best practices that a business chooses to use to achieve and sustain business prosperity. We believe prosperous companies manage their liquidity well, usually reflected in a strong current ratio of 1.5 or better. Prosperous companies achieve consistent growth in revenues and profits over time. Furthermore, over a period of a number of years, these organizations must also demonstrate efficiency in their business processes, as well as

innovativeness, substantial competitiveness, high quality products and services, and a consistent history of market growth.

Peter Senge defines a learning organization as "...an organization that is continually expanding its capacity to create its future." (1990) Creating an organization's future through learning is at the heart of strategic planning. A business must understand what challenges are being presented to it by the environment in which it exists. By understanding these challenges properly, the organization can fashion the appropriate response. Repeated failure in this exercise can doom an organization to extinction. Senge tells us that one of the hallmarks of a thriving organization is the presence of both adaptive and generative learning in the company's culture. Adaptive learning is organizational learning that assists the company in coping with the commonplace and predictable. Generative learning, on the other hand, requires companies to think and learn creatively, finding new ways to look at the environment in which they function.

The Value Zone method will help organizational leaders to view and think about their organization's futures in *both* adaptive and generative ways. We challenge you to use the Value Zone to energize your business and its leadership to become more creative and imaginative thinkers.

In this study we examine two SMBs: American Healthways and eResearchTechnologies. Each of these companies will be analyzed for a period of five years to determine whether or not they had been able to sustain their performance. Each of these companies was recently recognized by Fortune Magazine (2005) as America's Fastest-Growing small publicly companies.

### **American Healthways Overview**

American Healthways, Inc..

provides care enhancement and disease management services to health plans and hospitals. The Group's integrated care enhancement product line includes programs for people with diabetes, coronary artery disease, heart failure, asthma, chronic obstructive pulmonary disease (COPD), end-stage renal disease, acid-related stomach disorders, atrial fibrillation, decubitus ulcer, fibromyalgia, hepatitis C, inflammatory bowel disease, irritable bowel syndrome, low-back pain, osteoarthritis, osteoporosis and urinary incontinence (Source: Worldscope 2005)

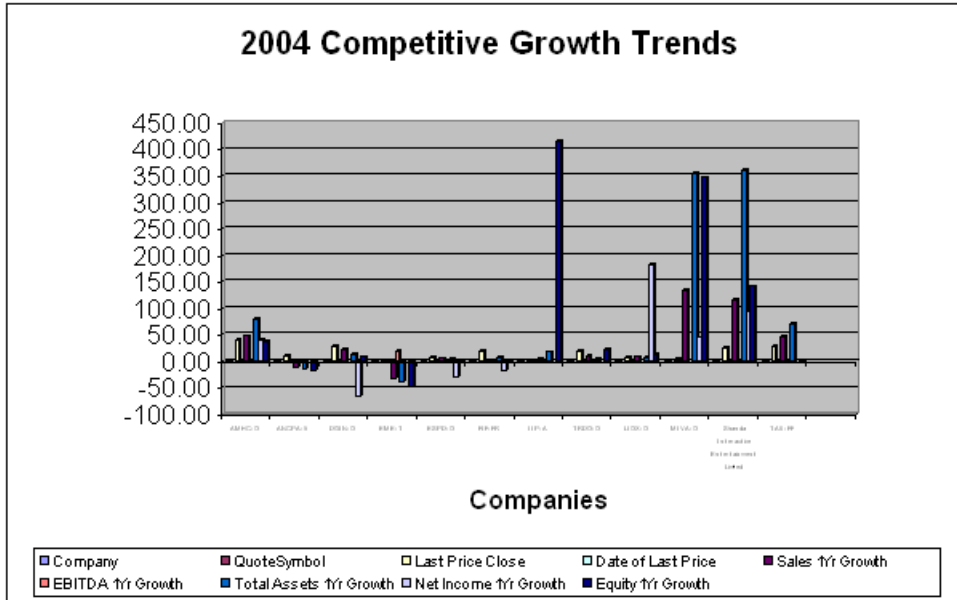
### **Strategic Initiatives**

#### **Financial Performance/Competitiveness**

- American Healthways key strategy is to develop new and to expand existing relationships with health plans to provide disease management and care enhancement services, including assisting these health plans in creating value for their large self-insured customers. They plan to use their scaleable state-of-the-art care enhancement centers and medical information content and technologies to gain a competitive advantage in delivering their disease management and care enhancement services (2004 10k Report).
- Another strategic initiative is to continue to add services to their product mix extending beyond a chronic disease focus and provide care enhancement services to individuals who currently have, or face the risk of developing, one or more additional conditions to address a larger percentage of a health plan's population and total health-care costs.

As seen in Figure 1 American Healthways is the fourth largest provider in the industry that it competes in and has excellent sales and profit growth as compared to some of its larger competitors like MIVA. As shown in Figure 2 American Healthways has outstanding current ratio and has been able to sustain a well-managed liquidity.

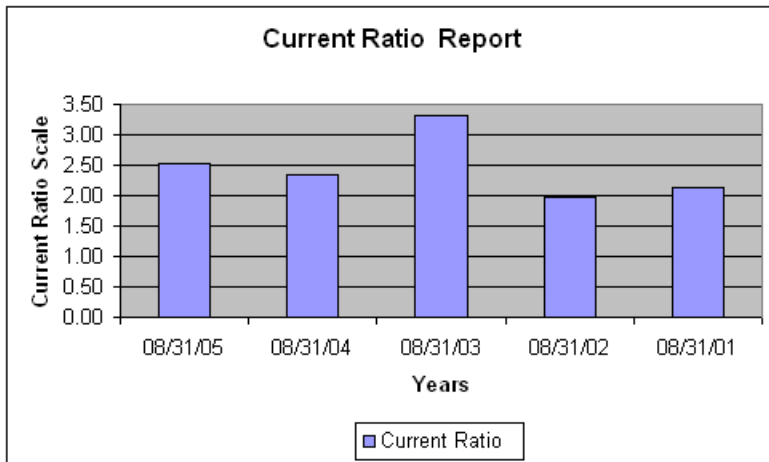
Figure



1

Source: Thomson Financials 2005

Figure 2



Source: Thomson Financials 2005

### Efficiency/Quality

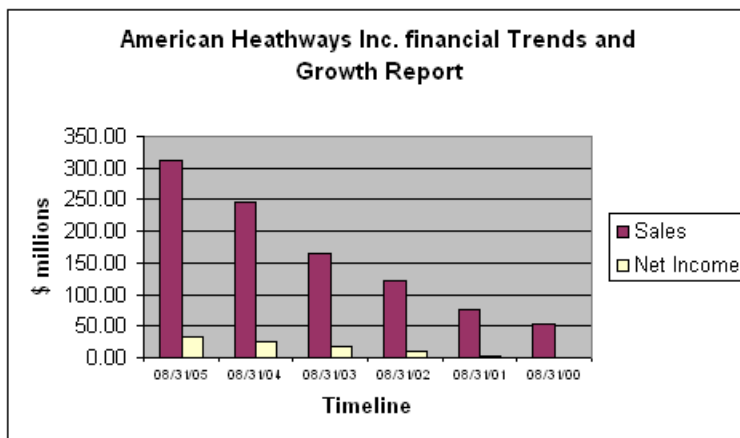
Their executives believe that they can achieve improvements in care, and therefore significant cost savings, by providing care enhancement programs to members with these additional selected diseases and conditions, addressing a larger percentage of a health plan's population and total health-care costs.

## Market Growth/Innovation

- On 05-Sep-2003, the Group acquired StatusOne Health Systems Inc.
- On 08-Jun-2005, the Group acquired Health IQ Diagnostics.
- They are expanding their clinical programs and data reporting systems, enhance their information technology support, integrating StatusOne's information systems, and opening additional care enhancement centers as needed. They also planned to add some of these new capabilities and technologies through strategic alliances with other entities.

As seen in Figure 3 American Heathways growth rate in profits and revenues has been excellent. The trend and forecast are clearly more growth.

Figure 3



Source: Thomson Financials 2005

American Healthways will continue to thrive with sustained performance and remarkable business results in the 'sweet spot' of the Value Zone as shown in Figure 4. They will achieve this through their strategic initiatives as outlined below:

- To develop new and to expand existing relationships with health plans to provide disease management and care enhancement services.
- To provide scalable state-of-the-art care enhancement centers and medical information content and technologies.
- To continue add services to their product mix extending beyond a chronic disease focus.
- To leverage their acquisition StatusOne Health Systems Inc. and Health IQ Diagnostics technologies.

## American Healthways Inc

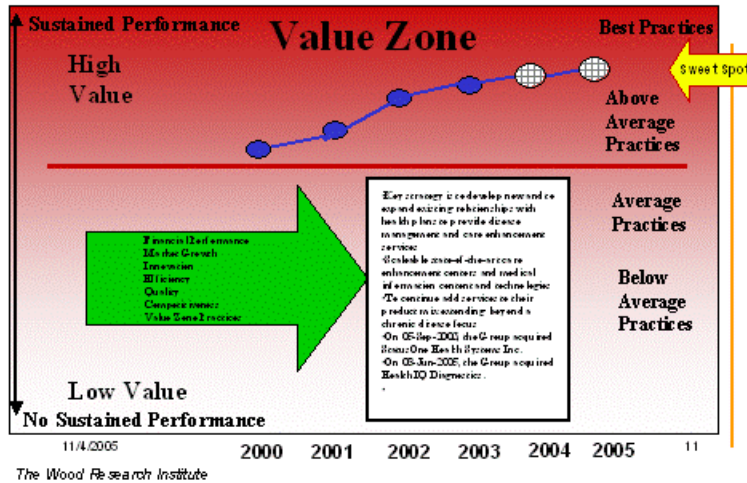


Figure 4

### eResearchTechnologies Overview

eResearchtechnology, Inc key activities include providing technology and services that enable the pharmaceutical, biotechnology and medical device industries to collect, interpret and distribute cardiac safety and clinical data. The firm provides Cardiac Safety services, which are utilized by clinical trial sponsors and clinical research organizations during their conducting of clinical trials. This company also offers licensing, which include hosting of proprietary Clinical Data. The

operations of this firm are carried out in the United States and the United Kingdom (Source: Worldscope 2005).

## **Strategic Initiatives**

### Financial Performance/Competitiveness

- eResearchTechnology are market leaders in providing centralized electrocardiographic services (Cardiac Safety services or EXPeRT(R) ECG services) and a leading provider of technology and services that streamline the clinical trials process by enabling our clients to evolve from traditional, paper-based methods to electronic processing using our Clinical Data Management products and services.
- Their solutions improve the accuracy, timeliness and efficiency of trial set-up, data collection from sites worldwide and interpretation and new drug, biologic and device application submission. They also offer Cardiac Safety services, which are utilized by clinical trial sponsors and Clinical Research Organizations (CROs) during the conduct of clinical trials, including comprehensive and thorough QTc studies. Their services may be provided through the Digital ECG Franchise program, which offers a unique approach designed to address the growing capacity demands for eRT's ECG services through partnerships with sponsors that desire dedicated resources within eRT to address specific levels of cardiac safety monitoring transactions.
- This company also offers the licensing and, at the client's option, hosting of proprietary Clinical Data Management software products and the provision of maintenance and consulting services in support of their proprietary Clinical Data Management software products.
  - Their license revenues consist of license fees for perpetual license sales and monthly and annual license sales. Their services revenues consist of Cardiac Safety services, technology consulting and training services and software maintenance services. Their site support revenue consists of cardiac safety equipment rentals and sales along with related supplies and freight.
- Their cost of licenses consists primarily of applications service provider (ASP) fees for those clients that choose hosting, the cost of producing compact disks and related documentation and royalties paid to third parties in connection with their contributions to our product development.

- The cost of services includes the cost of Cardiac Safety services and the cost of technology consulting, training and maintenance services.
  - They conduct operations through offices in the United States and the UK. Their international net income represented approximately 24%, 22% and 14% of total net revenues for the years ended December 31, 2002, 2003 and 2004, respectively. Revenues are recognized where the work is performed and not based upon the location of the client or the study.

As highlighted in Figure 5 their growth and profitability has been excellent especially since they began in 2000. In Figure 6 eResearchTechnologies is one of the leaders in their industry in 1 year sales growth during 2004. As seen in figure 7 they manage their debts very well.

Figure 5

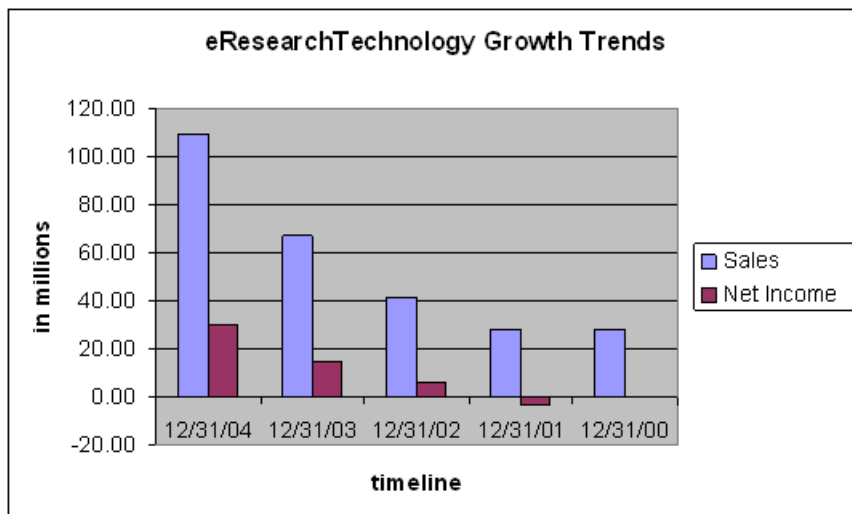


Figure 6

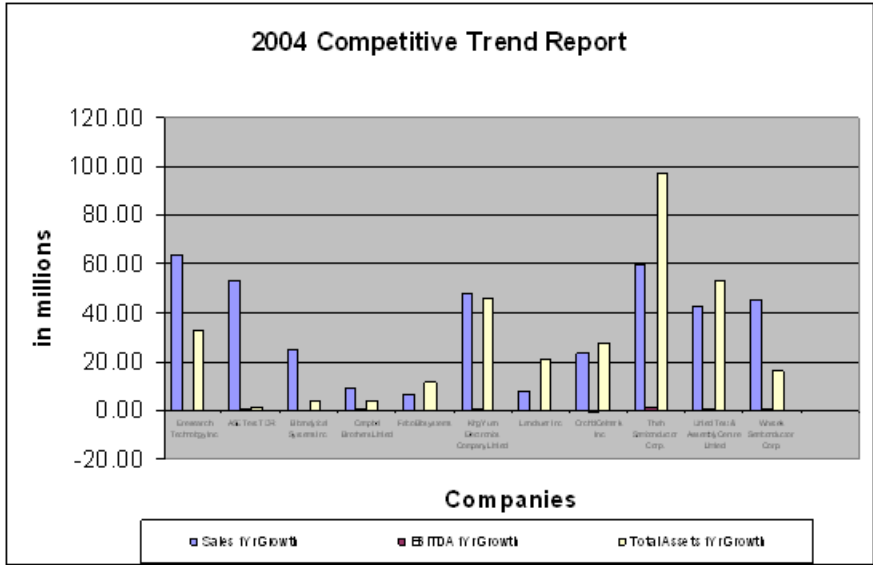
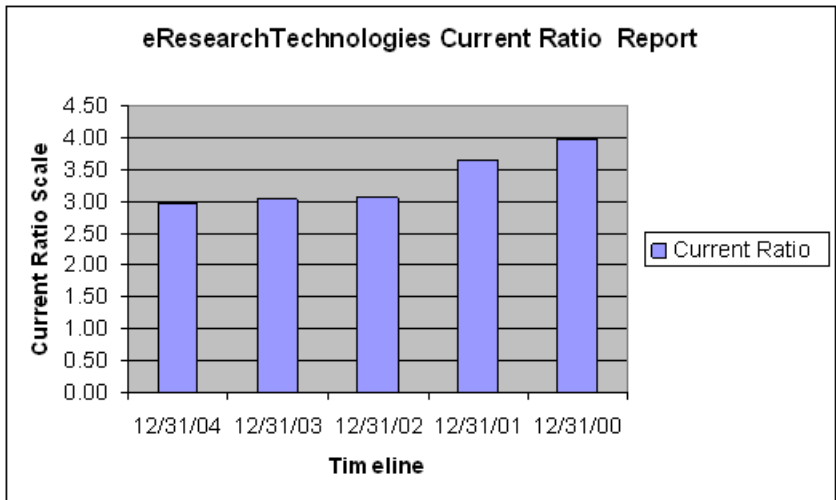


Figure 7



**Efficiency/Quality**

- The United States Food and Drug Administration (FDA) and the International Conference on Harmonization (ICH), provide guidance on the clinical trial process. This guidance can have a significant influence on the decisions made by eResearchTechnology clients and potential clients regarding the use of their services. For example, in the June 2004 ICH release, it was suggested that semi-automated processing of electrocardiograms may be found acceptable in certain instances. Semi-automated processing uses software algorithm placed measurements that are later adjudicated by a cardiac specialist or physician.

## **Market Growth/Innovation**

- In March 2004, they were issued a United States patent for various methods and systems for processing electrocardiograms. The methods and systems have particular utility in the collection and interpretation of electrocardiograms developed during clinical trials. The patent includes more than 50 claims directed to various features of our EXPeRT(R) workflow enabled data handling technology.
- They assert that historically they have been a leader in the industry in manual processing and they now also provide semi-automated processing with the same service level commitments to their customers as we have with our manual processing.
- Their manual processing includes manually derived measurements using their on screen, high resolution caliper placement system, which is later, interpreted by a cardiologist.

In Figure 8 eResearchTechnologies is being forecasted to continue its current trends of solid growth in revenues and profitability with well-managed debt. With their strategic initiatives outlined below they will continue sustain high performance and remain in the 'sweet spot' of the Value Zone:

- Remain Market Leaders in providing centralized electrocardiographic services
- Provide solutions that improve the accuracy, timeliness and efficiency of trial set-up, data collection from sites worldwide
- Continue to generate and grow international net income represented approximately 24%, 22% and 14% of total net revenues for the years ended December 31, 2002, 2003 and 2004

## eResearchTechnologies

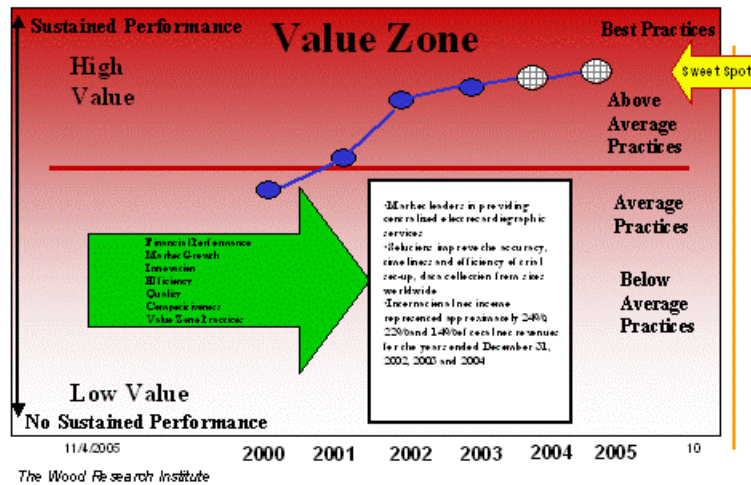


Figure 8

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## **Appendix**

