



WHY ECONOMIC GARDENING WORKS

Over the years we have had two reactions to Economic Gardening. First, professionals comment that it has more depth, richness, 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.

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 has to 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.

Stage 2 companies play an outsized role

- Stage 2 companies have proof of market (\$1 million in sales) and proof of management (10 employees).
- Stage 2 companies are beyond survival; they are focused on scaling.
- Stage 2 companies are about 15% of the total and yet account for about 40% of the jobs.
- Stage 2 companies need sophisticated information 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 and customers that are in volatile environments where change is going on.

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

- Old economy selling was based on cold calling a targeted company profile. The salesperson tried to create a motivation and then convince the prospect his solution was best.
- New economy selling works on the assumption that sales are difficult in stable environments and higher probability in volatile environments. In stable environments, people are happy with their product and their vendor. Proposing change introduces uncertainty that could go wrong and maybe even damage your career.
- 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, or the existing product/service was getting too expensive to operate or maintain. Some change has motivated the prospective company to start the information search for a better product.
- New economy sales, then, are based on finding those who already have motivation (created by some change). The sales window has opened, and the clock is running.
- Economic Gardening looks for the public signals of volatility, which indicate the potential for higher probability sales calls.

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

This is why Economic Gardening works.