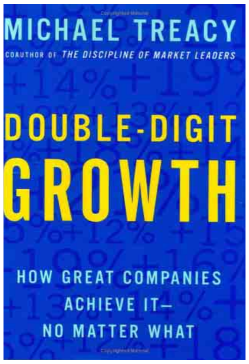

Double-Digit Growth

How Great Companies Achieve It – No Matter What

by Michael Treacy
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288 pages

Focus

- Leadership & Mgt.
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Take-Aways

- Growth is the *sine qua non* of business.
- Many of the world's biggest and most respected companies seem unable to grow.
- Many obscure and little known companies have a record of double-digit growth.
- Double-digit growth requires five disciplines.
- The first discipline of growth is to keep your existing customer base.
- The second discipline is to take customers away from your competitors.
- The third discipline is to establish a position in growth markets or segments.
- The fourth discipline is to enter adjacent markets.
- The fifth discipline is to invest in unrelated businesses.
- Managers should take a portfolio approach to growth, launch numerous growth initiatives, and pay attention to diversification and risk management.

Rating (10 is best)

Overall	Applicability	Innovation	Style
8	**9**	**5**	**7**

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Relevance

What You Will Learn

In this Abstract, you will learn: 1) How your company can achieve double-digit growth; and 2) How to apply five management disciplines to foster growth.

Recommendation

This straightforward book reduces the problem of corporate growth to five simple disciplines. Some of these disciplines will be familiar to readers of author Michael Treacy's bestseller *The Discipline of Market Leaders*. The author identifies sound principles, and he supports his case with numerous examples from the annals of corporate success and failure. Although the five disciplines are sometimes so obvious (try to get more customers) that a reader may well wonder if any businessperson could possibly be unaware of them, it is true that egregious corporate downfalls often result from a failure to recognize and respond to the obvious. If the book only pointed out the obvious to those in danger of ignoring it, *getAbstract.com* would find that entirely worthwhile and, for companies that wish to grow, it does a good bit more.

Abstract

The Scandalous Truth

Many of the world's largest and most important corporations seem unable to grow. That failure is a wasting disease in business. Fortunately, it is treatable.

"Any firm can adopt this system for managing a growth portfolio and achieve steady double-digit growth."

Some famous companies – such as Wal-Mart, Starbucks and Harley-Davidson – turn in astonishing double-digit growth year after year. Surprisingly, so do some more or less obscure companies: Johnson Controls, Medtronic, Mohawk Industries, Paychex and Oshkosh Truck are among them. Their example is instructive. Growth initiates a virtuous circle. Growth leads to more growth. Faster growth attracts the attention of stock market investors, who bid up the stock. Higher stock prices mean cheaper capital, which means more investment in growth opportunities. Growth builds customer confidence on the outside and boosts morale on the inside. But growth does not happen without growth management. Your management team can discuss these basic questions to discover whether it has a disciplined approach to growth management:

- How much growth did your business lose to customer churn last year?
- How much of your growth in market share is attributable to existing customers, and how much is due to new customers?
- Is organic growth or acquisition more economical in your industry?
- How much growth would you gain by targeting fast-growing market segments?
- What are your fastest-growing adjacent markets?
- How much of your company's growth comes from new markets?

"Hearing corporate managers explain away their growth problems is a little like listening to an addict in denial. Don't they understand that growth is a choice – a choice that lies entirely within their power and no one else's?"

Five Errors and Six Excellences

These fatal errors make growth unlikely or impossible:

- <u>Ignoring customer value</u> – Sooner or later customers move to competitors.
- <u>Betting on the wrong market</u> – You may get stuck in low-or-no-growth markets.

“Make growth through innovation the top priority for every manager in the organization.”

- Losing a proprietary competitive advantage – Over time, patents can expire, distribution arrangements can fall apart and regulatory protections can change.
- Misreading the market – Your company fails to notice that customer preferences have changed. Customers who have been price-sensitive may suddenly start to value product functionality.
- Failing to innovate – You allow a competitor to steal an advantage by introducing a next-generation value proposition.

Companies that grow at steady double-digit rates not only avoid the above errors, they also excel in six dimensions:

1. Risk management – They hedge their bets by taking a portfolio approach to business. A growth portfolio consists of a number of diverse initiatives whose risks are complementary or offsetting, much like an investment portfolio.
2. Small steps – They set contained growth objectives in a number of areas and strive to exceed their objectives. By taking little bites, they avoid choking.
3. Balance – They strike a balance between organic growth and acquisition. Organic growth and acquired growth are appropriate at different times and circumstances.
4. Value – Inferior value is toxic to growth. The masters of growth attract customers, gain market share and penetrate new markets because they deliver superior value.
5. Growth capacity – They invest in the capabilities that allow them to keep growing.
6. Growth management – Their growth management systems pay attention to attitudes, information, processes, roles, responsibilities and behaviors.

“Typical high-growth markets seldom see share gain through acquisitions. This is because everything is too expensive to buy.”

The Disciplines of Growth

To diversify risk and build for future growth, base your company’s investment in growth – its “growth portfolio” – on these five disciplines:

1. Hold the base – Preventing the loss of existing customers is fundamental.
2. Take customers away from competitors – This kind of growth is hard won.
3. Position for growth – You have to enter markets or segments where growth is going to happen. The challenge is getting there before your competitors.
4. Enter adjacent markets – This requires identifying markets where your current capabilities give you an advantage, and then building needed additional capabilities.
5. Enter new business lines – This is an investment, not a management discipline. The skills required are uncommon, and most management teams need extensive training and experience before they can make this tactic work.

“When a customer leaves your company, it is like a tax on growth.”

Now, examine these disciplines in detail.

First Discipline: Hold the Base

Consider Sprint and Nextel. In 2002, Nextel lost 27% of its customer base. By contrast, Sprint lost 42%. Both companies signed up 50% more customers, but Nextel’s lower rate of customer loss gave it a much higher growth rate. You can hold the base if you:

- Dictate the value criteria – Oreck vacuum cleaners are not the best performers, but folksy, conversational ads promote their light weight, focusing customer attention on weight as the primary purchasing criterion. This helped Oreck register double-digit growth for many years.
- Raise switching cost – Gain a powerful advantage by making it costly, inconvenient, aggravating and time consuming for a customer to switch to a competitor.

“If you can entice customers into complex relationships, they will be reluctant to go through the hassle of undoing those relationships in order to leave – and you will have taken a giant step toward base retention.”

"As tough as it is to gain market share, it's easy to lose it."

- Be distinctive – Make it hard for the customer to compare and contrast your offer with others. Bose does not distribute its audio equipment through retailers that carry other brands. It distributes through high-end stores, such as Neiman Marcus, that carry Bose exclusively.

Second Discipline: Steal Customers

Taking customers away from your competitors is hard and expensive. Sometimes the market share won does not justify the cost of winning it. However, once a company has decided to steal customers from its competitors, these techniques can help:

- Overcome the competitors' advantages – For example, incumbents usually have information about customers. Yet Capital One, a credit card pioneer, focused resources on developing better information than incumbent bank competitors.
- Deliver superior value – Value rests on three pillars: operational excellence, product quality and customer intimacy. A superior value proposition delivers better value on one pillar and at least the industry average on the remaining two.
- Buy the competitor – This only makes sense when the price premium to acquire a competitor is lower than the cost of acquiring customers directly.

"Companies decay when they stop growing."

Third Discipline: Position for Growth

In the early 1990s, GM and Chrysler lost market share in every business unit, yet they grew faster than their European and Asian competitors. The reason? They positioned themselves in the rapidly growing sport utility vehicle market segment. Although they lost market share even in this segment, they lost it very slowly. The market's growth meant that they were very slowly losing slivers of a very rapidly growing pie. The lesson: establish a position in the most rapidly growing segment of your market before your competitors step in and grow with it. To do so, pay attention to:

"The key to successful market positioning is to identify and invade the new hot spots before your competitors."

- Buying criteria – In the early 1990s, with healthcare costs surging, corporate health care buying criteria shifted from buying the best to buying the most cost-effective. Managed care flourished, and hospital chains that emphasized management efficiency grew at the expense of traditional, less efficient local and regional hospitals.
- Technology – Consider wireless phones. Most manufacturers of traditional phone equipment could not reposition themselves in the wireless market.
- Process expertise – The outsourcing business has surged, as breakthroughs in process expertise have created growth markets for such firms as Paychex, ADP, Exult and others.
- Demography – The difficulty is not determining what changes are occurring, but rather determining what changes will matter most to your business and how to exploit them. The most important demographic changes in the U.S. include the aging population, geographic shifts and economic development. The baby boom has provided growth opportunities from the 1940s through the present, from children's television to assisted living complexes. Geographically, the U.S. Sunbelt migration created growth opportunities for companies savvy enough to position themselves in the right geography. Developing countries' economic growth is creating opportunities, for example, in China and India. Meanwhile, migration to the U.S. has created growth opportunities for people who provide services to immigrants.

"The opportunity for adjacent-market growth improves when the market is in flux, when incumbents are busy adjusting to change and thus have less time to focus on new entrants and fewer weapons with which to fight."

Fourth Discipline: Adjacent Markets

These markets are similar enough to your existing market that some capabilities are transferable, but different enough to require adding some capabilities. Consider, for example, Sony's entry into the videogame market. Ask three questions about an adjacent market if you are considering trying to penetrate it:

1. Does this market have long-term growth and profitability advantages?
2. Do your existing capabilities and expertise give you a competitive advantage?
3. Can you match incumbents and meet the market standard with other capabilities?

Sometimes the best way to enter an adjacent market is to purchase an established company in that market. Acquisition solves the problem of meeting the standard, provided that the acquired company is successful. However, acquisition may require a price premium, and your ability to integrate the new company smoothly will determine your success.

"Find simple strategies."

Fifth Discipline: Unrelated Businesses

This is an investment, not a management discipline. Conglomerates work if their managers observe the following rules of sound investing:

- Never overpay – Good investors know when to walk away from an acquisition. They won't take less than a bargain, but they prefer a steal.
- Keep strategies simple – The more complicated the strategy is at the outset, the more likely it is to fail.
- Become partners with existing management – Acquisitions are not just acquisitions of assets, markets and businesses; they also involve acquiring skills.

The Risks of Growth

"The target is visible. The tools are available. The payoff is enormous. The rest is up to you."

Growing requires picking the right targets, striking the right deals and keeping control without losing the commitment of acquired management. Regardless of how you decide to grow, the risks of growth emerge from both the external market and within the company. The most important risks are:

- Customer risk – Customer expectations rise; customer preferences shift. Customers are fickle and sometimes unpredictable.
- Competitive risk – Incumbent competitors may fight harder than you expect when you enter a new market. When you are an incumbent, you may face new competitors. Technological change can be a dangerous source of competitive pressure.
- Implementation risk – A company's biggest risk may be the risk of stumbling as it implements a new strategy. Consider the money lost on customer relationship management (CRM) systems. Although the technology was promising, only a few companies have been able to extract the anticipated value.
- Operating risk – Logistical failures, manufacturing glitches, service problems and other operating failures can derail the best strategy and prompt your customers to shop around. Paradoxically, the better you do your job, the more you raise customer expectations and the more dangerous operating risk becomes.

About The Author

Michael Treacy is a former management professor at the Massachusetts Institute of Technology, co-founder and chief strategist of GEN3 Partners, and author of the bestseller *The Discipline of Market Leaders.*

