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1 – UNSTOPPABLE

RENEWAL/REINVENTION

Rapid shifts in markets and technologies are forcing companies of all sorts to change direction faster than ever. As a result, many management teams are tempted by “big bang” solutions: dramatic, transformative mergers or aggressive leaps into sexy new markets. But bold moves rarely pay off. The success rate for major, life-changing mergers is only about one in 10. It is less than one in seven for moves into a hot new market far from a company’s core.

For most companies, reinvention of a core business doesn’t have to involve such high levels of risk, writes Chris Zook in *Unstoppable: Finding Hidden Asset to Renew the Core and Find Profitable Growth*. His research shows that nine out of every 10 companies that successfully renewed themselves in the past decade found the solution in mining their hidden assets – assets they already possessed but had failed to tap for maximum growth potential.

Shouldn’t well-run companies already be using all of their valuable assets? In fact, large, complex organizations always acquire more capabilities and businesses than they can focus on at any one time. But when a company needs to redefine its core, it often discovers that secondary assets and capabilities of the past suddenly assume center stage, and are the key to new growth. Hidden assets are usually one of three types:

- underutilized capabilities
- undervalued business platforms
- unexploited customer insights/assets

UNDERUTILIZED CAPABILITIES

The classic example for leveraging underused capabilities is Apple. The iPod drew on the company’s well-known skills in software, user-friendly product design and imaginative marketing – all underexploited capabilities. Another example: the remarkable rejuvenation of IBM in the past decade was built on a small services business that had always been in the background of the hardware business. Nike’s ability to economically produce a line of shoes tailored to a particular microsegment is another case in point.

UNDERVALUED BUSINESS PLATFORMS

Turning an overlooked business platform into a new core is more common than you might imagine, writes Zook. General Electric revitalized itself via GE Capital, a division that has now fueled its parent’s growth and profitability for years. Nestle discovered it had a number of isolated food and drink products designed to be consumed outside the home; by assembling those products into a new unit, Nestle Food Services, it created the core of a new multibillion-dollar business.

Samsung focused on a different set of hidden assets – underinvested business lines – to redefine its core. It shut down or sold 76 businesses, thereby freeing up resources to invest in its lagging but promising semiconductor and consumer-electronics businesses. Today, Samsung is a leader in memory chips and mobile phones as well as in high-end television sets and flat-screen monitors.

Trend Analysis That Builds Business Decisions

UNEXPLOITED CUSTOMER INSIGHTS/ASSETS

Untapped customer insight is another hidden asset. Harman International, a maker of high-end audio equipment, faced stagnating growth in the consumer and professional audio markets. But co-founder Sidney Harman had the insight that customers who bought expensive audio equipment at home were spending more time in their cars. Harman acquired German company Becker (which sold radios to Mercedes-Benz), and drew on Becker's digital audio capabilities to develop high-end automotive "infotainment" systems that fueled the company's renewal. Based largely on its success in this new customer segment, Harman's market value increased 40-fold from 1993 to 2005.

The renewal of American Express also took hold when the company focused on an unexploited customer asset: the power of its payments network to provide insights about what customers and merchants wanted, and how to deliver it to them.

ACCELERATING PACE OF CHANGE

Rapid shifts in markets and technologies have forced companies to change their directions faster

than ever before, writes Zook. This pace of change will continue to accelerate, driven by the convergence of major trends over coming years, including:

- the extraordinary speed at which large amounts of capital move and can be mobilized;
- the emergence of China and India;
- the development of the Internet;
- the speed of technological cycles, particularly in certain areas like biotech and digital technologies;
- the unbundling of value chains around the world.

Since 1994, more than 50% of the companies in the Global 500 have seen their world changed by threats to their core business models. About half of this group have gone bankrupt or been acquired, and the other half have had to make risky and fundamental changes in strategy. Recovering from a crisis in a company's core business model may well be the hardest challenge in business. For most companies, it's more difficult to respond by finding, and using, hidden assets than to try a leap to a new market, make a huge acquisition, or trigger an innovation program at a corporate level. But more often than not it's the right path.

2 – MORE ON HIDDEN ASSETS

INTELLECTUAL PROPERTY

The issue of unexploited intangibles came to prominence in the late 1990s, especially with the publication of *Rembrandts in the Attic: Unlocking the Hidden Value of Patents*, by Rivette and Kline. It is now widely recognized that intellectual assets are more than patents and trademarks – the category extends to such things as customer information, software code, databases, business models, brands, homegrown processes and employee expertise. And it is not just large enterprises that can benefit; it's estimated that

75% of companies of all sizes seeking to grow organically can do so by better exploiting their hidden intangible assets.

As Leigh Buchanan writes in *Inc.* magazine, to successfully mine their companies' hidden assets, presidents and CEOs must recognize potential when and where they see it. Categories of often overlooked intellectual assets include brands, proprietary data, homegrown products and processes, and outside assets, all of which can be licensed to great benefit.

Consulting in:

- Market and industry analysis
- Strategic business direction
- Growth dynamics

Providing:

- Trend identification and analysis
- Keynotes and presentations
- Proprietary research and reports

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HIDDEN IN PLAIN SIGHT

In a similar vein is *Hidden in Plain Sight: How to Find and Execute Your Company's Next Big Growth Strategy*, by Erich Joachimsthaler, Founder and Chief Executive Officer of Vivaldi Partners, a strategy and marketing consulting company. Using much of the same reasoning (companies must innovate to grow, but they often forget to look beyond their own brands), and many of the same examples (Apple's iPod), the author promises to reveal "how to find and execute your company's next big growth strategy."

His main criterion for innovative business success is customer centricity, or viewing business operations from the perspective of customers. Rather than focusing on your product and how to improve it – or focusing on what the competition is doing – Joachimsthaler counsels instead asking

what you can do to get a larger share of the 1,440 minutes that make up every customer's day. His "demand-first innovation and growth model" entails, first, creating a demand landscape through an enhanced understanding of how people behave and live their lives, and second, identifying the opportunity space by looking through the eye of the customer, the market and the industry.

The book explains how to spot opportunities that are hidden in plain sight. It shows how to become an unbiased observer of people's consumption and usage behaviors. Refining this skill helps companies generate organic growth through new products, services, solutions, and experiences that truly enhance peoples' lives. Case studies of companies that have grown through taking these steps include MasterCard, BMW, Proctor and Gamble, GE Healthcare, Frito-Lay, Nike and Wal-Mart.

3 – BLUEPRINT TO A BILLION

EXPLOSIVE GROWTH

Despite American pride in its innovation leadership, only an elite group of companies has turned big innovations into billion-dollar businesses. In fact, of the 7,500 U.S. companies with initial public offerings in the past 25 years, only 5%, or 387, achieved \$1 billion in revenue. As a result, they accounted for more than half of the employment, and two-thirds of the market value, created in that time-frame. They include eBay, Genentech, Google, JetBlue, Microsoft, Nike, Staples, Starbucks, Harley-Davidson and UnitedHealth Group, to name a few.

Author David Thomson calls them Blueprint Companies because they uniquely achieved exponential revenue growth and returns. They are the heart of innovation. Their products enhance our lives.

How do high-growth companies turn breakthrough ideas into billion-dollar businesses? What blueprint do they follow to produce such results? Seeking a

useful set of benchmarks – guideposts for turning a Big Idea into a standalone billion-dollar business – Thomson reverse-engineered the success of these companies. His findings form the basis of *Blueprint to Billion: 7 Essentials to Achieve Exponential Growth*.

SEVEN ESSENTIALS

Revenue growth to \$1 billion has two distinct stages: the time between the foundation year and the "inflection" or take-off point (a threshold of around \$50 million in annual revenues), and then consistent, exponential revenue growth. Thomson found that the first stage is quite variable (from one year to several), which is then followed by one of three paths to \$1 billion (centering on a 4-, 6- or 12-year trajectory).

Blueprint Companies can grow in any sector. The Consumer Discretionary (specialty retail) sector is the largest (26%), and includes Staples,

Trend Analysis That Builds Business Decisions

Growth Strategies newsletter was formerly published as *FutureScan*.

AutoZone, Williams-Sonoma, Petsmart and Abercrombie & Fitch, to name just a few. The Financial Services sector, including the insurance industry, has the second largest number of Blueprint Companies. Information Technology (IT) firms account for only 18% of the Blueprint Companies; health care for 13%.

What do they all have in common? Seven essentials are needed to achieve and sustain exponential growth. Some are strategic, some are operational, and some involve leadership.

Essential #1: Create and sustain a breakthrough value proposition

Essential#2: Exploit a high-growth market segment

Essential #3: Use blue-chip customers to gain credibility

Essential #4: Secure big brother alliances for breaking into new markets

Essential #5: Focus relentlessly on sustained positive cash flow

Essential #6: Build inside-outside leadership teams (face both outward and inward)

Essential #7: Stock the board with industry experts

Blueprint Companies follow certain practices the rest of us can learn from. Though in vastly different industries, all of these businesses started small, grew rapidly and profitably, and followed many of these same seven management practices – most of which were evident early on and can be applied to any small business.

- They can easily explain why their business proposition is better than that of the competition. [Good example: Cheesecake Factory]
- Most operate in markets large enough to accommodate several new billion-dollar businesses. [Good example: Ameritrade]

- They attract a “marquee customer,” whose high profile and reputation open doors to new markets, and who effectively becomes a partner and helps transform the organization. [Good example: Cerner, and marquee customer Mayo Clinic]
- They practice a special kind of “inside-outside management,” where one leader or team focuses on internal operations and financial matters, and another focuses on external concerns such as client, investor and public relations. [Good example: Microsoft]
- They form a “big brother alliance” that helps them establish credibility and crack new markets. [Good example: Microsoft and IBM, or alternative-energy firm Headwaters, and big brother Dow Reichhold, a giant chemical company]
- They tend to finance early growth from operations. [Good example: eBay]
- They get extraordinary value from their boards by stacking them with successful CEOs and industry experts who offer deep experience and contacts, help bring in business, and give shrewd advice. [Good example: Genentech]

GO FOR GROWTH!

Where might the next set of billion-dollar opportunities in the US lie? Thomson suggests the following possibilities:

- leisure products and nursing homes for aging boomers
- energy
- natural resources
- specialty chemicals
- semiconductors for consumer gadgets
- any time-saving products or services