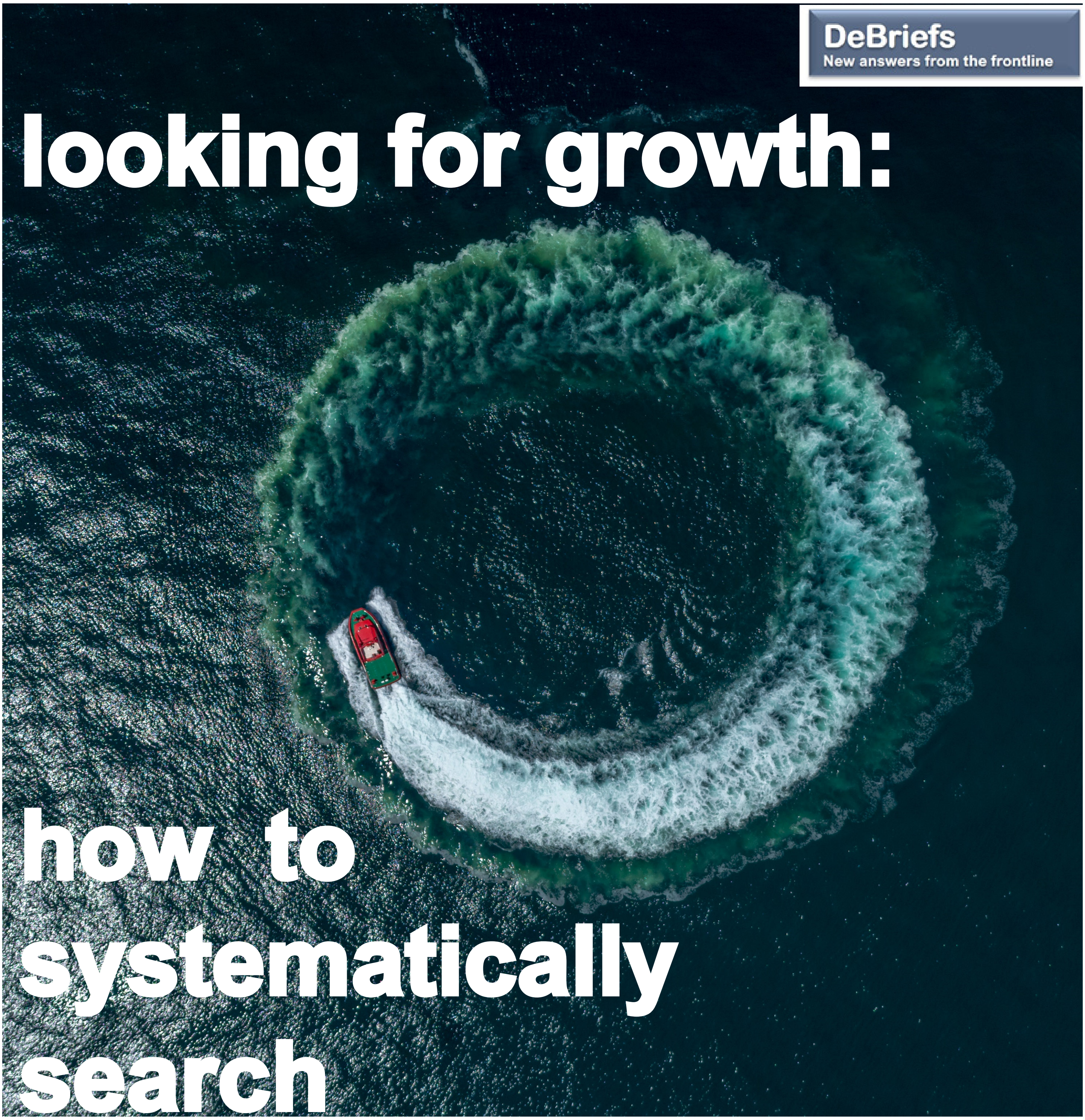
DeBriefs
New answers from the frontline

looking for growth: how to systematically search



Growth strategies are usually the result of leadership teams playing their favourite strokes. Plans for improved performance are regularly drawn up without a systematic and comprehensive consideration of all the lines of attack. Too much attention is paid to the latest fad; not enough to the rigour of turning every stone. The Business Schools and world's best consulting firms under-serve the need for models that put all the options on the table. I've seen this at first hand, having facilitated strategy workshops in dozens of Boardrooms and taught the consultants the best we have.

This work has enabled me to draw together a new model to support systematic search. It is unique because it is not unique. Instead it draws together every route to growth in one place. Every grand idea and every proven wrinkle.

North's Star. A model that has been used to facilitate debates about direction, to frame the hard choices and force decisions, and to determine resource allocations and action plans.

North's Star is more of a platform: it is a place where new ideas about growth are posted. And it is constantly being updated based on observation and use in the daily grind of creating growth strategies. It draws on Ansoff (1957) and last week's workshop.

The basis of the model is three Growth Styles which explain all initiatives in this area:

Innovation Strategies – headline grabbing and fashionable, this area is often targeted by managers looking for longer term payoff. Results are sometimes disappointing given the hype and investments made. We believe much better use of funds could come about with better processes and a different approach to risk.

Scale Strategies – a range of initiatives which all require different practices but fulfil the requirements of instant impact. Scale is more than an acquisition issue - with collaboration, licensing, extensions and complementors playing key roles.

Optimisation Strategies – the detail of these various routes involves processes which can be the secret of the success of the biggest names.

Optimisation Strategies

Optimise Propositions

Consider the way that airlines have traditionally squeezed every bit of value from a fragmented, segmented market. Seats with extra pitch, tickets without flexibility, service with bells on. They have developed different propositions for different customer clusters who value different factors…and have different propensities to pay. This way they improve their share of the consumer surplus. It depends on good customer insight, smart segmentation, and delivery of a portfolio of differentiated products, services, brands, price structures and so on.

Paint is paint: but not at Akzo Nobel where differentiation has been developed into a fine art. Use of convincing product presentation, alternative brands and differentiated channels has turned a commodity into a highly sophisticated market.

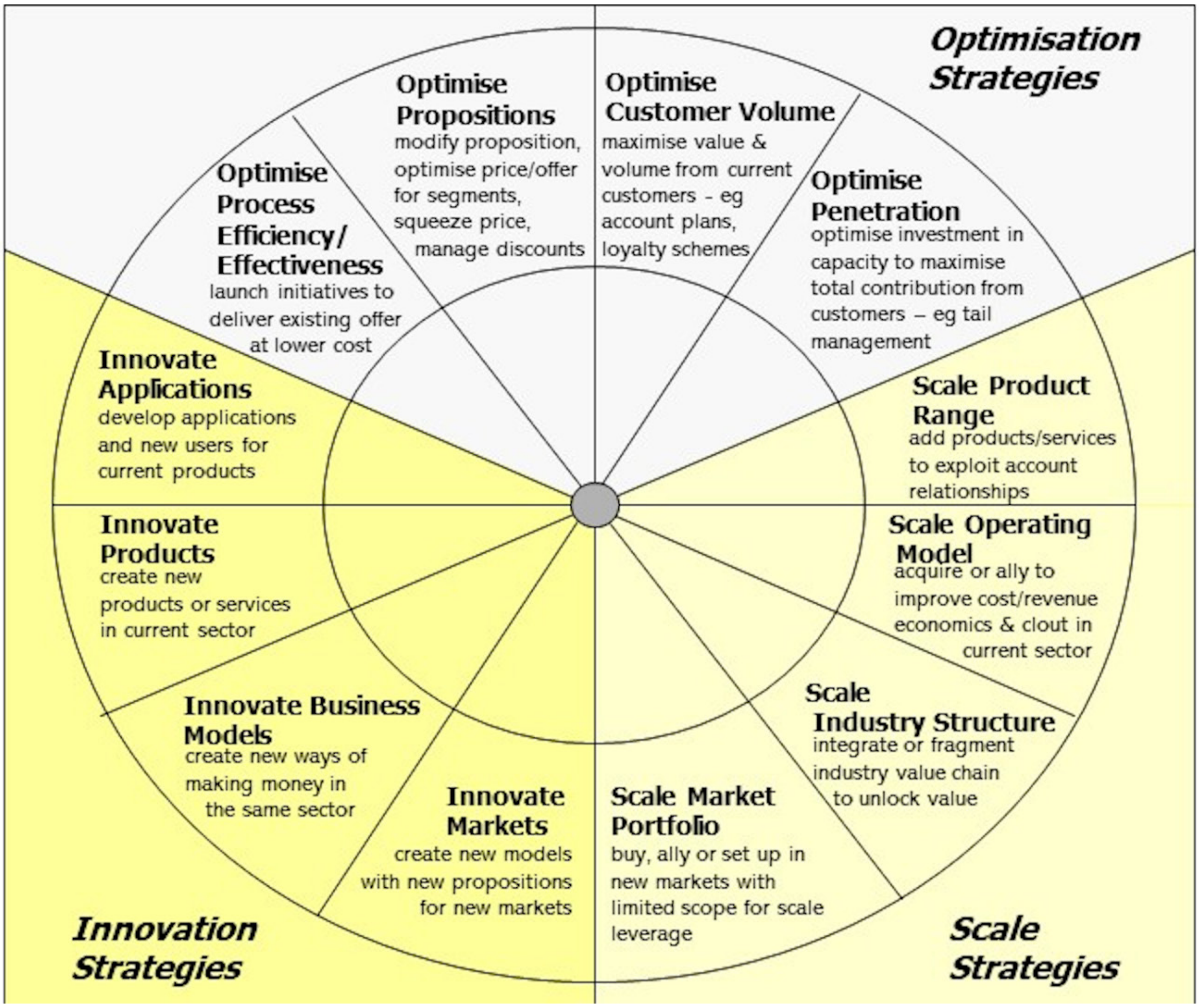
Optimising propositions is a route to growth pursued by tireless customer watchers. Although the work of marketing gurus has filled the field with much theory, this area receives under-investment in time and cash: this is not just about superficial promotion in B2C sectors or having account-specific targets in B2B. This route may require brave changes to organisational design, significant outlays in customer intelligence and risks of cannibalisation and over-loaded costs.

What are the options for your business to pick off customer groups with tailored propositions? How well do you optimise the price / offer for different customers? How do you squeeze price and manage discounts customer by customer?

Back at the airlines, the no-frills carriers have spoilt the party: now the suits pay £30 to fly to Brussels when we know they would pay more. The airline industry is clearly leaving money on the table. Unable to compete on cost, the traditional carriers are scouring the research to find a valuable source of difference that will justify that premium.

Optimise Process Efficiency and Effectiveness

This route to growth is well trodden. Can you manage the processes that deliver your current business at lower cost? Simple. The crusades of BPR, lean manufacturing, etc etc. Initiatives in this area split into those that draw on the re-design of Technological Architecture, Organizational Architecture and Human Architecture. Consider the bank with the best cost:income ratio in Scandinavia: Svenska Handelsbanken. The culture of trust and responsibility and the development of personal motivation through widespread reward systems have enabled them to dispense with many of the costly controls and central hangers-on of the other banks: *Human Architecture*. For a strong example of shareholder value growth through attention to internal *Organisational Architecture*, consider the redesign of United Utilities which saw the transformation of back office functions into cross-group profit centres exploiting the scale that comes with serving all the group …and external customers. Initiatives in *External Organisational Architecture* hit the headlines daily as firms get real about where their core competences reside in the value chain and ship out the rest: if proud Italian Prada can shift production to China, can you show the same ruthless pursuit of growth through re-organisation of the make-buy? At the customer acquisition end, have you explored all avenues to make customer acquisition cheaper? HFC Bank pays retailers for



consumer credit customers then focuses on up-selling from that captive account. For *Technological Architecture*, look at the minimills of Nucor or the IT enabled supply chain of Dell or the shift to self check-in at the airlines..

Optimise Customer Volume

When they win a customer in the commercial finance teams of most successful banks, it's just the start of the marketing process. The job is to keep that hard-won business client, become his preferred supplier from now till eternity. As time goes by, revenues grow; marketing costs should fall. They even do it with pizzas! The motivation behind the Pizza Express membership club was the same: turning a one off transaction into a subscription relationship into the future. This route to growth draws on the work on customer loyalty. We need to ask the question: how can we maximise the value and volume of business – both now and in the future - from current customers and current product range through better selling and different forms of relationship. Look at how can we use account plans better? How can we use loyalty schemes better? How can we turn a "ships that pass in the night" transaction relationship into an ongoing subscription relationship? How can we grow the relationship, raise the share of purse, and then grow the purse itself?

Optimise Penetration

Price and product are set, market size is given, costs have nowhere to go: what options do we have for making headway without dramatic steps? Many firms have found that vigilant attention to the marginal investment made in pursuing marginal customers can have more than a marginal impact. How closely do you manage the level of resource invested in winning and servicing customers? Are you sure you are optimising the investment of the firm in penetrating its market? Challenging the firm's assumptions about who it should be servicing has reaped substantial dividends for a market-leading packaging manufacturer: customer-by-customer analysis of orders showed that the cost of servicing the short run, transient business was eliminating all contribution from the revenue that the Marketing Director was so proud of. "We need to shrink our way to greatness!" one food manufacturer told me, having inspected the contribution of his biggest, yet least profitable contracts But it's not just about stripping out cost in response to a quick application of the 80/20 rule. Looking at the reverse: what opportunities are there for smart additional investment to open up customer groups you haven't reached yet? Retailers relentlessly model decisions to enter virgin high streets, a Mediterranean hotel manager experiments with extra waiting staff at peak drinking hours, a German insurer extends the target for its products to a previously unserved SME sector by using an agency network. Can you grow by reviewing the investment you put into marginal capacity? Can you prosper by better managing the tail?

Scale Strategies

Scale Product Range

A market-leading hirer of tools to the UK construction sector adds site cabins, lifting equipment and diggers to its range. Next, it considers the copiers and desks for the site staff in the cabin. How well are you managing the range of products and services that could fully exploit the customer relationships you enjoy? Ericsson invests in a new division to offer consulting, system integration and managed operations services to the customers who prize their equipment. Home Depot has now topped $1bn revenues from its services offering, taking its franchised plumbers to install the kit bought by its retail customers. Whiskas is taking branded milk to its appreciative cat owners. Can you grow through exploiting your customer base with an extended range? You don't need to actually make the products you add to your list, or even own the business that delivers them. The business-class-only transatlantic offering from KLM-Air France is delivered (and liveried) by PrivatAir. The value you add is the customer relationship. Scale up fast with insightful understanding of the customer need and organizational solutions that give you speed, lower downside and flexibility.

Scale Operating Model

Scale is often used as a proxy for growth yet advancement in total revenues, or number of business units or served markets, can prove to frustrate the ultimate goal of growing shareholder returns. The over-ambitious acquisition and the too-rapid expansion have a history of destroying wealth. However, with a precise understanding of the role that scale can play in building shareholder value, this is a well-trodden route to successful growth. Consider the marriage of Pernod Ricard and Allied Domecq in the drinks sector: heralded to improve supply chain costs and power with retailers. Consider the sweet success of Estee Lauder Inc. as it adds new brands to a fragrance empire that leverages retail clout and knowledge management. Consider the global exploitation of Cosmopolitan magazine by Hearst with local licenses which exploit the picture deals, content syndication, and NYC editorial best practice.

The test for any initiative in this area is: does the development of scale in this way improve the cost and/or revenue economics through better buying clout, better selling clout, or better capability development in the sector(s) currently served?

Note that scaling the operating model does not equate to "making an acquisition": the development of scale may be from rapid organic investment, or some form of horizontal alliance. The scale may be achieved by stitching together businesses across borders: the common growth route of the global company.

Scale Industry Structure

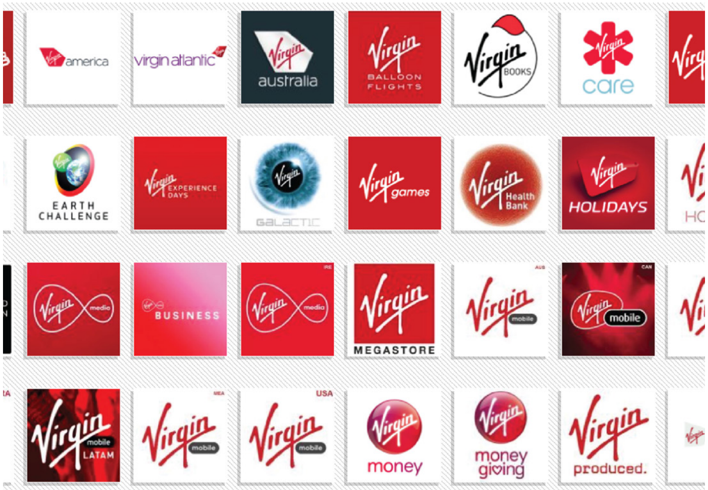
The ambitious management team may explore the opportunities for growth deriving from altering the way the industry value chain has traditionally worked. What are the opportunities for the firm to benefit its revenue or cost position through either integrating or fragmenting the different components of the industry. Consider the actions of TUI, the quoted travel group with operations worldwide. It has stitched together accommodation and aircraft capacity, tour operators, travel agents and even owned airports to create a vertically integrated machine which can steer end consumer business to its own upstream fixed cost businesses. This way it achieves better costs (from better capacity utilization) than its more traditionally- structured rivals. Integration is not always the direction to go. Consider the way that UK broadcaster Channel Four defied TV industry logic and set up with no production capability. Benefits over traditionally integrated channels included a pipeline of creativity from self-employed programme makers and lower costs too. Consider the way packaging firm TetraPak sets out to create demand for its customers' product, a practice adopted by plane manufacturer Bombardier with its Flexjet private jet hire agency broking empty legs for Bombardier aircraft owners.

What advantages could you achieve by changing the way the industry is structured?

Scale Portfolio

Anxious corporate centres often embark on tortuous explanations of the synergy created by an acquisition or new business start up. The strategy purists' requirement for 'leveraging a core competence' can often hamstring an ambitious corporate centre – or CEO – which has spotted a new pot of gold. The reality is that growth through scaling up the portfolio - diversification - defined here as setting up in a market or sector which does not bring with it the benefits of scale in the operating model or benefits of scale in the marketplace – is a legitimate and real world route to growth.

So, spend Rio Tinto's cash by moving into bio-tech? Maybe not! The goal here is not just to identify attractive markets and business plans with growth prospects, but, importantly, to participate only where there is a fit between the corporate management capability and the job to be done in the new enterprise. When extending the group into new businesses, we are looking for some 'parenting advantage'. Can the parent - the corporate centre - add value through



the way it 'parents'. The way it sets targets, supports investment, connects the business with its sisters. Virgin Group carefully selects the ventures it takes under its wing to fit its parenting style. The impressive success of venture capital groups shows that diversification can work: but they choose their investments carefully to fit the way that they can add value.

The most interesting challenge is to spot the diversification dressed as another strategy. Media giants purchasing assets around the world need to confess that these businesses depend on local dynamics: very little leverage benefits exist. In this situation, the wise CEOs declare the limitations of pursuing linkages and run the business at arm's length. It is to the credit of WPP plc that they have resisted the pressure to "unify" their diverse agency network and instead granted their units the right of subsidiarity. Successful growth through diversification ultimately requires dispassionate investment appraisal and insightful opportunity identification. Not usually the habits of an industry insider. How do you measure up to these qualities?

Innovation Strategies

Innovate Applications
Can you create new applications for your current core capabilities or find new users for your current products? Hummer shifts its military vehicles into consumer markets. Marriott uses its expertise in hospitality to sidle into fractional homes for weary executive commuters with the 17 Park Street offer of a residence in London where the concierge knows your name and the pictures of your children stand by the bed. Alfa Laval exploits its core expertise in centrifuges and exchangers to open up new customer groups in a myriad of industries. What opportunities are there for your business to find new revenues from exploiting in new ways its know-how, its data, its technologies, its infrastructure, or its position in the industry? This may be the first tentative step into innovation.

Innovate Products
The obvious route is to seek growth through the creation of new products or services in your current sector. Break new ground for your industry. Create a new type of product within your current product field: look at the efforts of Kraft's Dairylea with complete snacks for pack-lunch kids. Create a new sort of service around your existing offer. Banks and brokers are adding robo-advisory platforms using AI to help their clients manage their investments. The job here is to know your customers' needs better than they do. Although marketing gurus offer the wisdom here, the initiatives are likely to come from the service operatives or sales execs on the ground: so this is a challenge for the motivation and ideas management in the whole organization. The job is not to merely add services to your range or modify your proposition: the challenge is to invent new products.

Innovate Business Models
Or how about inventing totally new ways of making money in your existing sector? Not a new product, but a new combination of your organization, your proposition, your target customer group.

Consider Orica, the explosives manufacturer. Aware of the critical task for its customers of managing the charge in their quarries, it decided to exploit its expertise in this area not simply by selling a consulting service but by turning the business model upside down. Betting on its real value-add, Orica undertakes to take payment only for the amount of aggregate it delivers to the required specification. From making explosives to delivering the product of the bang! The customer is relieved of the risk of a rogue explosion; Orica banks on its skills in a different – higher margin – way. So, how could you grow through re-visiting that configuration of customer group, value proposition and your value chain?

Innovate Markets
Turn your back on the incremental advances from optimisation strategies and face toward the blue sky: search for growth by creating new models with new propositions

for new markets. Usually triggered by the combination of a special customer insight plus a spirit of entrepreneurialism plus a technological, scientific or process breakthrough, market innovation has good press cuttings. At least, the successes have good press cuttings. The job here is not simply to "get it right", but to "get it at the right time", to "manage its downside" and pile in behind it when the cardboard-and-string prototype is showing some promise. Companies betting on this growth strategy need both eyes wide open and both hands on the cheque book: the Silicon Valley approach to milestone-oriented investment and unashamed starving of the young and weak works best with this strategy. But the aggressive investment management is only the accelerator and brake of this car: the fuel of market innovation is ideas and discoveries, customer obsessions and crazed ambitions. With dispassionate investment management and passionate invention making uneasy bedfellows, we see that large organizations and science/industry communities (such as the Cambridge bio-tech sector) are best able to deliver the stream of ideas, the financial rigour and the space to fail. The challenge for medium sized firms is to attract and encourage the ideas, leave the entrepreneurs to flourish, apply a dispassionate investment discipline and accept the fact of life of failure. So, surprisingly, market innovation is more a challenge of organizational context as it is a challenge of product strategy. A fundamental question for those seeking to grow through market innovation is : do we shape the market or adapt quickly to the opportunities as they properly emerge? The winner may not be first out of the blocks. Most market innovations – including the obvious ones: IVF babies, cellphones, online search engines - all show that the winners are usually those best able to manage the investment timing and exploit the pioneers...and not the pioneers.

From Choices to Competencies

Growth requires the alignment of the organisation's skills, culture, management style and processes – not just the renewed efforts of the salesforce! Behind each of the 12 strategies of the Star is a set of competencies: skills, processes, management styles, assets, and organisational forms that support successful implementation.

Whichever route is chosen, there are three foundation competencies that all firms must address in order to be effective with any of the Star's Strategies. They are:

Appetite - A leadership style and organisational culture that encourage a never-ending search for improvement and success. Systems and practices that establish goals and hurdles and provide feedback and reward for their achievement

Learning & Flexibility - Practices and an organisational design that encourage experimentation, improvisation and adaptation and a culture that values it. Can patch SBUs and redeploy staff easily.

Risk management - A perspective on risk and uncertainty that embraces it and works with it constructively. Processes for use in planning and decision making that equip managers to analyse and prioritise uncertainty that others fear.

We need a model that maps and facilitates an orderly exploration of the routes to growth. The North's Star model has been developed and put to work for a range of ventures. It has been used to support idea generation, dialogue and decisions. Statements of strategy and planning processes have been built using the North's Star.

Use the model to ensure you leave no stone unturned.

Written by Hamish Scott.
Hamish holds fractional executive positions in industry and faculty positions in a number of European business schools.