How to grow

Having a clear sense of business boundaries and of the definition of your core is a critical starting point for growth strategy. **Identifying the core of your business** is the first step in determining how to grow. In order to do that, you must **identify your key assets**:

- Who are your most potentially profitable, franchise customers?
- Which are your most differentiated and strategic capabilities?
- What are your most critical product offerings?
- Which are your most important channels?
- Are there any other critical strategic assets that contribute to the assets above, such as patents, brand name, or position at a control point in a network?

Once you have successfully identified your core business, you should examine the three elements of a possible growth strategy.

1. Strengthen & defend the core

One of the three options to consider is strengthening and defending the core. There are three essential steps involved in this strategy:

- Define the business boundaries and your own core business
- Identify and verify the sources of differentiation that will continue to create market power and influence over your customers, competitors, and industry profit pool
- Assess whether the core is operating at or near full economic potential

2. Grow through adjacencies

The second element of a possible growth strategy is adjacency expansion from the core. Adjacency expansion is a company's continual moves into related segments or businesses that utilize and, usually, reinforce the strength of the profitable core. Critical to improving the odds of profitable, sustainable growth are:

- Identifying adjacent business opportunities and recognizing the most common patterns
- Assessing and choosing the right adjacencies
- Avoiding some common pitfalls of adjacency expansion

3. Redefining your core business

The third element of a growth strategy is redefining the core.

- How do you know when it may be time to redefine your core business?
- What are the best organizational methods for tackling this difficult task?
- What are the lessons learned from past successes and failures at redefining a core business?

Where to grow

Between defining and redefining a core business lies the second element of our growth strategy, adjacency expansion from the core. Adjacency expansion is a company's continual moves into related segments or businesses that utilize and, usually, reinforce the strength of the profitable core. Critical to improving the odds of profitable, sustainable growth are:

1. Identifying adjacent business opportunities and recognizing the most common patterns
2. Assessing and choosing the right adjacencies
3. Avoiding some common pitfalls of adjacency expansion.

What makes adjacency expansion different from other growth strategies is its use of existing customer relationships, technologies or core business skills to build competitive advantage in a new area.

Companies pursuing new growth initiatives without jeopardizing a strong core can benefit from methodically inventorying and mapping out their adjacent opportunities.

Map your growth opportunities

The process of mapping does more than just help organize opinions and inventory ideas. It reveals the extent to which the organization has a multiplicity of choices for growth and makes it easier to understand the trade-offs that may need to be made in choosing which to fund. In the absence of such a process, organizations often lack an agreed-on big-picture context for making decisions, fund an excessive number of initiatives to an insufficient extent, and take too seriously the "idea of the day".

There are many different processes to map out and characterize the full range of business adjacencies. The following is an example of one way to map your adjacencies.

Step One: Define your cores. Rank them from strongest to weakest based on economics and relative competitive strength. Rank them also according to the richness of adjacent growth opportunity from "limited" to "unlimited." Identify the core that should be the highest priority for growth, balancing these two factors.

Step Two: For the strongest core(s), map out adjacencies in more detail using the following type of sequence.

- Identify the adjacencies you are already in and array the data on how you are doing there (market share, profitability, investment)
- Identify the adjacencies the organization is considering or has rejected
- Identify other known adjacencies, possibly requiring two or three strategic moves to get there
- Identify adjacencies suggested by studying investment action of competitors
- Identify adjacencies suggested by potential new competitors, often small companies
- Identify future adjacencies due to technology or other developments

Put these adjacencies on a single grid or map like these examples and push the thinking on what is missing.

Step Three: Do a quick ranking or rating of each adjacency. This will result in a ranking along the following types of measures: 1) potential size, 2) strength of advantage due to the uniqueness of the core, 3) strength of probable competition, 4) offensive and defensive importance to the core (warding off invaders), 5) a longer term perspective on multi-step moves, 6) ability to implement.

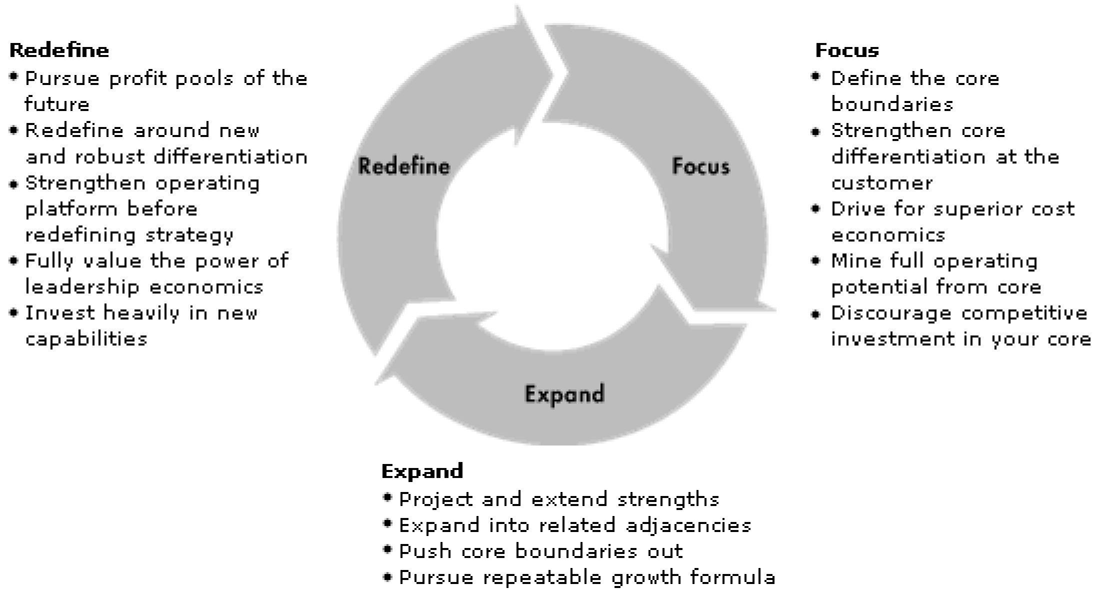
Step Four: Develop cluster of moves, or strategic scenarios

Step Five: Determine implementation phases within each scenario. Assign time periods against each.

Cycle of business growth

A research team at Bain & Company found that of the companies that made the Fortune 500 in 1994, a decade later, 153 of those companies either had gone bankrupt or had been acquired. Of the remaining 347, the team judged that 132 had engineered a fundamental shift in their core business strategy. In other words, **285 out of the 500 faced serious threats to their survival or independence during the ten-year period**. Only about half of this group was able to meet the threats successfully by redefining their core business.

What accounts for the fact that so many companies are facing the need to transform themselves? One way to understand it is through what we call the **Focus-Expand-Redefine (F-E-R) cycle in business**. Nearly every large enterprise seems to move through this cycle over time. In the Focus phase, companies concentrate on building their core business to its full potential. They expand their markets, cut costs, improve operations, and develop innovations in their core products. In the Expand phase, they take advantage of these capabilities and market positions to move into adjacent markets. They seek out new customer segments, new geographies, new distribution channels, and new-but-related product lines.



At some point, however, many companies find that their growth and profitability is tapering off or even declining. Perhaps the market has reached a saturation point, or perhaps the pool of available profits has shifted. Perhaps new competitors with lower cost structures or innovative products have appeared. This is when a company moves into phase three and must face the challenge of redefining its core.

Today, there is little doubt that the **F-E-R cycle has accelerated**: companies move from one phase to another faster than ever, thanks to a number of well-recognized forces. New competitors from China and India have shaken up whole industries. New technologies have lowered costs and shortened product lifecycles. Capital, innovation, and management talent all flow more freely and more quickly around the globe than ever before.

The average holding period of a share of common stock has declined from four years in the 1980s to nine months today. The average lifespan of companies has dropped from fourteen years to just over ten, and the tenure of CEOs has declined from eight years a decade ago to less than five years today. Companies must thus navigate an unusually turbulent sea.

http://www.bain.com/bainweb/media/video/chris_zook_interview_video.asp

From The Times

February 9, 2010

Focus on your core: it’s the mantra at the heart of every big business success story

Angela Jameson

The idea that businesses should focus on their core is so well entrenched in corporate culture that it seems surprising that it can be traced back to a book published less than ten years ago.

Moreover, it seems so obvious that it is wonder that nobody had pointed it out before. In the words of Jonathan Ringer, a lead partner at Bain & Company, the strategy consultants: “It is not rocket science, nor is it glamorous, but it seems to work, time and time again.”

The book summing up the philosophy — *Profit From The Core* — was written at the height of the internet bubble by two of Mr Ringer’s colleagues at Bain, Chris Zook and James Allen. Times have changed dramatically since then, so Bain is reissuing the book for a new era and a new generation of business managers.

The headline news is grim. The odds of achieving profitable growth are going down every decade and are now only one in ten.

Bain examined more than 2,000 listed businesses between 1998 and 2008 and discovered that of the 2,000, only 242 qualified as sustained value creators — companies that have more than 5.5 per cent compound annual sales growth, 5.5 per cent compound annual profit growth and earned back their cost of capital.

It also found that worldwide there are only 29 so-called rocket ships, such as Google, that are capable of delivering spectacular growth of 15 per cent a year or more.

Of the 242 sustained value creators, Britain has 14 (see box). Some are not high street names and some are in low-growth markets. It is no surprise that Britain’s financial services companies have crashed out of the top rank, but other high-profile brands, including Marks & Spencer, Cadbury, BP and Vodafone, are also absent.

And yet, according to Mr Ringer, Britain is punching its weight. The ratio of successful companies is no different to that in other countries.Bain’s analysis shows that most companies that have truly sustainable performance share four characteristics: an extraordinary focus on the core; leadership economics to reinvest in the core; a uniquely loyal core customer base; and a well-defined repeatable model to extend the core. The theory of core focus matters because in downturns weaker businesses tend to be the shock absorbers of their industries, revealing margin swings that are often three to five times that of the leader.

At the same time, companies with strong, focused cores have opportunities to make acquisitions or gain ground on their competitors.

Bain calculates that since the financial crisis began, followers in a market have suffered declines in value nearly twice as steep as those of the leaders.

“We are not saying that sustained value creators are immune from a crisis or shock, it’s just that those companies that have followed these principles are best placed to make the most from the opportunities that arise,” Mr Ringer said. Nevertheless, surviving downturns or turbulence can be just as hard for companies that are leading their market. “No one is a sustained value creator by right. You have to work at it. “The book explodes the myth of hot markets, the idea that some sustained value creators were merely in the right market, with the right idea at the right time. Eighty per cent of sustained value creators are in low-growth markets but have clearly focused growth businesses, such as Nike.

The book’s No 1 piece of advice for chief executives is this: “Take the time to discover what is the core of your business and what is the core of that core — so you know what really are the crown jewels today and in the future of the company.”

British value

Of the 242 companies that are sustained value-creators, 14 are British **Tesco** (retail and finance);

Wm Morrison (supermarkets); **Johnson Matthey** (chemicals); **Reckitt Benckiser** (health and consumer goods); **First Group** (transport); **Next** (fashion retail); **Bunzl** (catering supplies);

Serco Group (services); **Go-Ahead Group** (train and bus operator); **Morgan Sindall** (construction); **Dairy Crest Group** (food); **Atkins** (engineering consultancy); **BSS Group** (plumbing and heating supplies distributor); **Cobham** (aerospace and defence).

A Repeatable Formula for Success

Five design principles characterize the most successful companies, Bain says.

Compiled By Jill Jusko

March 16, 2010

LATEST NEWS

Profitable growth in an unstable economic recovery. That's what companies are looking for as even the best have been severely tested over the past few years. To achieve that level of success, companies must be hyper-vigilant in maintaining their focus and creating repeatable formulas for success, say Chris Zook and James Allen, senior partners at Bain & Co. and co-authors of *Profit from the Core: A Return to Growth in Turbulent Times*. The 2001 book recently was re-released with findings from a 10-year study by Bain of more than 2,000 companies.

One warning that emerges from the study results: Don't over-invest in the weakest businesses to make them stronger while neglecting the stronger businesses and assuming continued profits. More often, it's the stronger business that has the greatest opportunity for growth, Bain says.

Five principles help successful companies create a repeatable formula to remain focused and profitable, according to Zook and Allen. The principles are:

- Have a well-defined business core and understand how you have made it work for you. The authors stress that the business core is not necessarily so narrowly defined as a company's primary product or service, but can include four to seven assets that may include such intangibles as brand and talent. That said, "Most strategic errors come from inadequate self-awareness of the core," Zook states.
- Have up to 10 non-negotiable principles about the business.
- Have a strong bias toward distributed leadership. That means fewer layers of management.
- Have a strong, closed feedback loop system to keep information coming in from customers.
- Keep the number of key operating measures small. Be sure everyone at all levels understand those measures and believe in them.

MARKET FOLLOWERS WITH WEAK CORE BUSINESSES LOST TWICE AS MUCH VALUE DURING RECESSION AS LEADERS; SAW PROFIT MARGIN SWINGS 2-TO-5 TIMES GREATER THAN INDUSTRY FRONTRUNNERS; ACCORDING TO NEW BAIN & COMPANY STUDY

New York, NY-March 15, 2010-According to a new Bain & Company 10-year study of more than 2,000 companies in 12 developed and emerging economies, nearly all businesses (95%) that consistently create value above and beyond their cost-of-capital are market leaders in their core businesses, yet only one-in-ten companies (242 in total) studied distinguished themselves as Sustained Value Creators (SVCs*). The study further shows that market leaders drive virtuous cycles of growth, resulting in:

- Returns on capital nearly twice that of market followers, on average
- Growth adjacency success rates 2.5-3 times that of followers, on average (adjacencies are defined as entries into new businesses, new markets, new customer segments, etc.)

Bain finds that with employment not expected to return to pre-recession levels until the back half of the coming decade and as two-thirds of global industries now in fundamental flux, finding profitable growth will challenge even the best companies in the unstable recovery ahead. The findings from the Bain SVC study are presented in the newly-updated and published Profit from the Core: A Return to Growth in Turbulent Times (Harvard Business Publishing, February 2010). Originally published in 2001, the re-release features new research and insights drawn from the past decade. Authors Chris Zook and James Allen, Bain senior partners and co-heads of the firm's Global Strategy Practice, find that SVCs follow a three-step 'Focus-Expand-Redefine' growth cycle:

1. Focus and reach full potential in their core business
2. Expand into logical adjacent businesses surrounding that core

3. Advance by pre-emptively redefining the core business in response to market turbulence

"The cold truth about chasing hot markets is that they rarely deliver on the promise," said Mr. Zook. "Our research shows that market leaders are instead those companies that cut a clear path to sustainable value creation and maintain their pre-eminence by obsessively following repeatable formulas for successful growth."

Zook and Allen define the core of a business as the heart of what makes the company stand apart, the real root cause of its competitive advantage. They stress that the core is not narrowly defined as the primary product or service that a company sells or the primary market in which it operates. It is much broader than that, but can usually be defined by four-to-seven assets and capabilities, including intangible assets such as brand, intellectual property and talent, or capabilities such as differentiated production systems and technology, a customer-driven innovation system, best supply chain management, or world class marketing.

Bain's study finds that 60 % of SVCs competed on cost position, a list including Wal-Mart, Danaher and IKEA. Another 30% competed on a differentiated product or service offering, including LVMH and Apple. The remaining 10% of SVCs compete on industry influence, including Microsoft, Google and DeBeers.

The authors warn market leaders to avoid a 'leadership paradox.' According to Bain's study, companies often invest most in their weakest businesses, while neglecting the strategically strong businesses, taking their higher profits for granted. However, it's more often true that the stronger
businesses have the most potential for profitable growth. Therein lies the paradox: the stronger your business, the more likely it is operating below its full potential.

"When Profit from the Core was first published in 2001, the message of focusing and investing on a well-defined core business to maximize its full potential seemed like a quaint and even dated idea to many," said Mr. Allen. "But as businesses today continue to deal with a fragile and uncertain economy, the principles of focus and repeatability have never been more timely."

Studying the most successful companies, Zook and Allen cite five key design principles which they tend to have in common. These principles help companies create a 'repeatable formula' to stay focused on what really makes them profitable:

- Principle #1-having a well-defined core to your business, and understanding how you have made it work for you
- Principle #2-having up to 10 non-negotiable principles or beliefs about the business
- Principle #3-having a strong bias to distributed leadership, which means having fewer layers of management and a larger percentage of decisions being taken on the front line
- Principle #4-having a powerful, closed feedback loop system of information coming in from customers. This keeps the company attuned to the outside world
- Principle #5-having a small number of key operating measures - known and believed at all levels-keeps the organization on track

The authors suggest that companies must look within to discover their true core business. "Most strategic errors come from inadequate self-awareness of the core," added Mr. Zook. "Many management teams do not agree on the core and some have never even talked about it." CEOs should rally their company around a common vision of their core business to propel the organization through the slow growth waters that lie ahead by:

- Leading detailed, frank discussions throughout the organization to pin down the top assets and capabilities that really define the core
- With consensus in hand, go on the hunt for where you are not reaching full potential in that core-be it in customer segments, cost position or competitive advantage
- Be ruthless about telling the organization what not to do. It's just as important to decide what to stop doing as it is what to start doing

"Turbulent times call for creative strategies," concluded Mr. Allen. "But thinking about who you can become starts with a deep self-awareness of who you are now."

**SVCs are defined as those companies that generated more than 5.5% in both revenues and profits, compounded annually, and earned back their cost of capital.*

Editor's note: To learn more about Bain's Sustained Value Creators study, or to schedule an interview with Chris Zook or James Allen, please contact Cheryl Krauss at email: cheryl.krauss@bain.com or +1-646-562-7863 or Frank Pinto at frank.pinto@bain.com or +1-917-309-1065.

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About Bain's Sustained Value Creators (SVC) Study Methodology

For the Sustained Value Creator analysis Bain & Company analyzed the performance of over 2,000 publicly listed companies for which reliable company data were available and which had at least $500M revenues in 1998. Sectors with non-standard accounting methods (such as banking), or performance highly dependent on commodity prices (such as oil and gas) were excluded. The study was performed on companies that were based in 12 developed and emerging markets.

Twelve-percent of the analyzed companies, or about 1-in-10, met the Sustained Value Creator criteria over the period 1998-2008. These criteria were:
- Not acquired or bankrupt
- At least 5.5% revenue growth in real terms (i.e. adjusted for inflation)
- At least 5.5% profit growth in real terms
- At least returning the cost of capital to shareholders

A return to growth in turbulent times

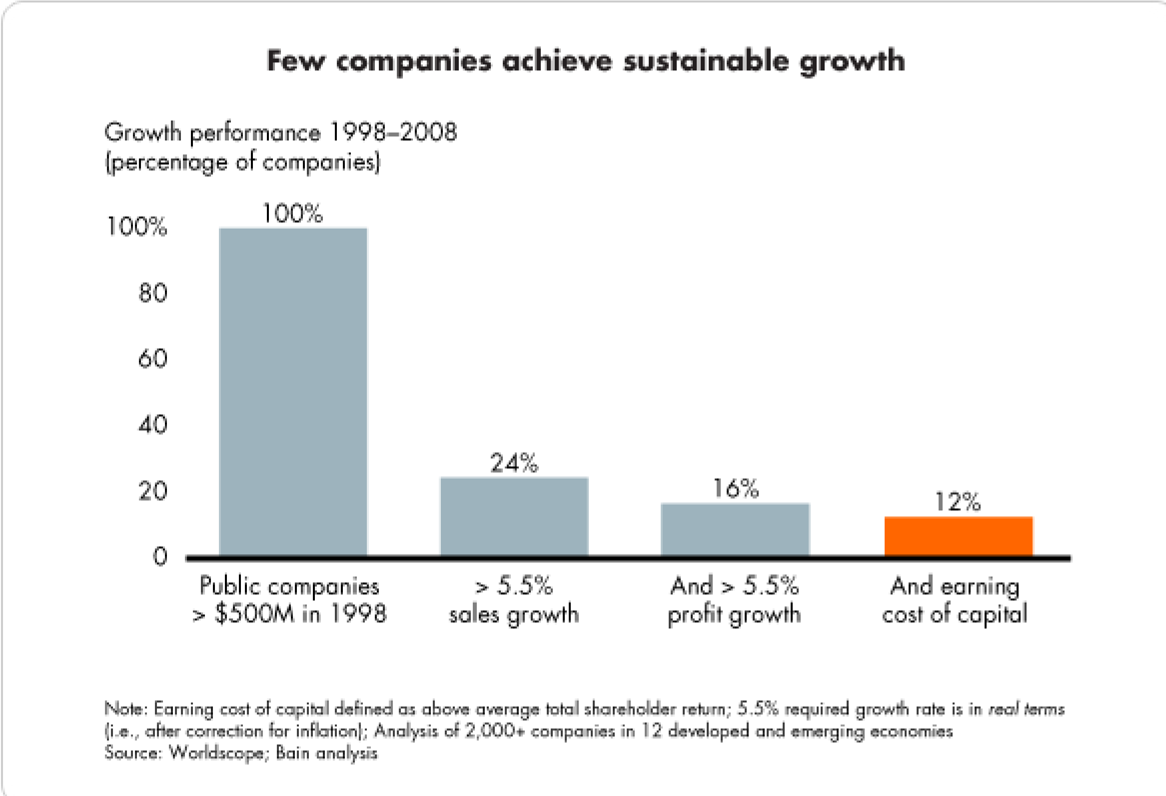
The global financial crisis and the rough road to recovery have brought the power of a company's core business back into sharp focus. Like a collective commercial death wish, global market values rose in 2007 by a staggering 20 per cent (denominated in dollars), reaching $61 trillion by year end. In just five years, $38 trillion had apparently been created in the stock markets—more value in terms of market capitalisation than the global stock markets had recorded in their entire history.

But where did it really come from? In some cases, as we have found, not the right places. Crises of the core have appeared everywhere, from AIG to Citibank to General Motors. In fact, we have seen this picture—or something resembling it—before. In 1999, fueled by investor hyperbole, the value of stocks on all global exchanges blew away the previous world record for expansion.

http://www.bain.com/bainweb/media/video/chris_zook_interview_video.asp

It was in these heady days, at the height of the Internet bubble, that *Profit from the Core* was first published in 2001. "Focus on your core" became a watchword of the day in an era of "anything goes." *Profit from the Core* chronicles a litany of examples in which companies lost sight of what they were really good at, moved away from their strengths and let their real competitive advantage erode in the process.

Our analysis and case examples show that most companies with truly sustainable performance share four characteristics: an extraordinary focus on the core, leadership economics to reinvest in the core, a uniquely loyal core customer base and a well-defined repeatable model to extend the core. These insights are as relevant today as they were in the last period of turbulence.



Over the last few years, we began to encounter more and more companies asking the same questions—and occasionally disagreeing—about whether their core had shifted as a result of turbulence in their industries. That shared concern accelerated dramatically as management teams recognized the need for a more focused platform to use as a foundation for growth coming out of the financial crisis. Consider the following:

- The odds of achieving sustained, profitable growth remain challenging: Only about one in 10 companies worldwide managed to grow profits and revenues more than 5.5 per cent over the 10 years ending in 2008, and earn back their cost of capital, based on Bain's updated global database of Sustained Value Creators.
- During downturns and recoveries weaker businesses tend to be the shock absorbers of their industries, revealing margin swings that are often three to five times that of the leader—a hidden liability of nurturing too many weak cores. Companies with strong, focused cores have opportunities to make acquisitions or gain ground on their competitors.

- Since the financial crisis started, we estimate that followers in a market have seen their values decline by nearly twice as much as leaders—presenting leaders with acquisition opportunities.
- Roughly two–thirds of the global profit pool is in turbulent industries like media, telecommunications, autos, airlines and financial services, all of which are undergoing fundamental changes in their core business models above and beyond normal business investment. In a world of much lower profits, especially for weak core businesses, the future belongs to the smart leaders investing in their cores.

Against this background of once-in-a-generation challenges and opportunities, Harvard Business Press will publish an updated edition of *Profit from the Core* in February. The principles and findings of the book provide insights into how and why companies succeed in the search for sustained, profitable growth:

- Most sustained, profitable growth companies have leadership positions in their cores that form the epicenters of their strategies.
- The No. 1 rule of strategy is to discourage your competitors from investing in your core.
- The greatest source of strategic error, we find, stems from an inaccurate understanding of the core and its full potential.
- Strong cores often contain hidden assets that prove to be the seeds of the next wave of growth.
- The key to sustained and profitable growth is to find a repeatable formula that utilizes the most powerful and differentiated strengths in your core and applies them to a series of new “adjacent” markets.

Turbulent conditions create confusion, blurred boundaries, less time to react, less tolerance for error and often fewer resources. Yet they also create unique opportunities to strengthen and expand strong cores, and even to invest to reshape the structure of your industry ahead of competitors. As many companies have come to learn, focusing on the core delivers results.