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WHEN THE GROWING GETS TOUGH

CHARTING YOUR PATH TO
VALUE-CREATING GROWTH





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The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with 81 offices in 45 countries. For more information, please visit bcg.com.

About BCG's Winning with Growth Initiative

Growth is not optional. It disproportionately drives shareholder returns, and it attracts and motivates talent. But achieving value-creating growth, while possible in any industry, is rarely easy. BCG's Winning with Growth initiative brings together leading experts on corporate strategy, innovation, globalization, M&A, business model innovation, marketing and sales, and organization to help clients chart their unique paths to value-creating growth. This publication is a product of that collaboration.

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INTRODUCTION

Revenue growth is an imperative for nearly all organizations.

In the short run, it accounts for about one-third of total shareholder return (TSR). And in the long run, it's nearly all that matters, driving almost three-quarters of TSR. Moreover, growth boosts morale and helps companies win the war for talent—laying the foundation for the next stage of growth. But achieving value-creating growth is challenging.

This short book collects The Boston Consulting Group's latest thinking on how to chart a growth strategy. It also offers perspectives on each of the seven critical levers that organizations can pull to drive growth: corporate portfolio repositioning, go-to-market transformation, geographic expansion, innovation, mergers and acquisitions, business model innovation, and organizational moves.

On behalf of the authors and BCG's global partner group, I hope you find the ideas stimulating and wish you luck on your growth journey.



Rich Lesser
President and CEO

WHEN THE GROWING GETS TOUGH, THE TOUGH GET GROWING



THERE ARE THREE TRUTHS about revenue growth. Over time, it is *imperative*. Across all industries, it is *possible*. And experience shows that it is *perilous*.

Growth is imperative because it strengthens companies and drives the capital gains they deliver to shareholders. It builds advantages of scale and scope, attracts talent, delivers funds for reinvestment, and forces competitor investment. Studying the top-quartile value creators in the S&P Global 1200 from 1993 through 2013 is revealing. Even in the short term, revenue growth accounted for 32 percent of one-year total shareholder return—more than twice the contribution of increased free cash flow and nearly triple that of margin expansion. And in the long term, revenue growth was nearly all that mattered, explaining 71 percent of ten-year TSR. (See Exhibit 1.)

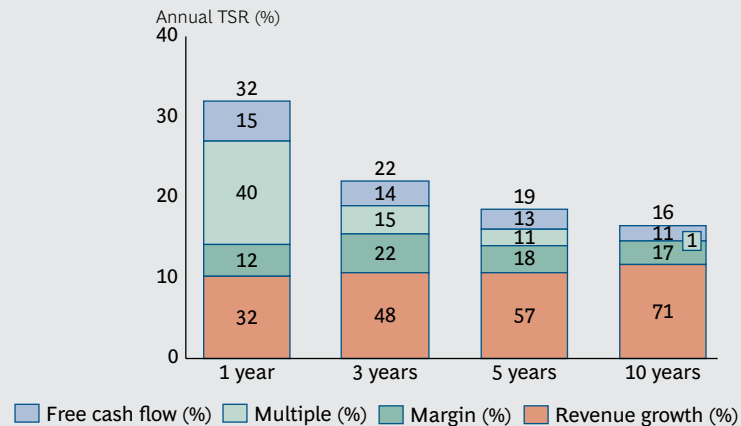
Many executives, sobered by growth headwinds or past failures, consider growth a long shot. However, our analysis shows that growth is possible even in the most challenging sectors. On average, there is five times greater variability in growth rates within an industry than there is *across* industries. It is not the cards you are dealt; it is how you play them. (See Exhibit 2.)

But not all growth is good growth—and the path is perilous. Just one-third of the full S&P Global 1200 achieved value-creating growth between 2003 and 2013. Another third failed to grow at all. And the final third grew, but destroyed value in the attempt. (See Exhibit 3.)

As growth itself is perilous, so is any attempt to distill an easy formula for its success. Our research into valuable growers shows a startling variety in growth paths, in strategic choices, and in the shape of growth investment. A

EXHIBIT 1 | Growth Is Imperative

Sources of TSR for top-quartile performers (S&P Global 1200, 1993–2013)

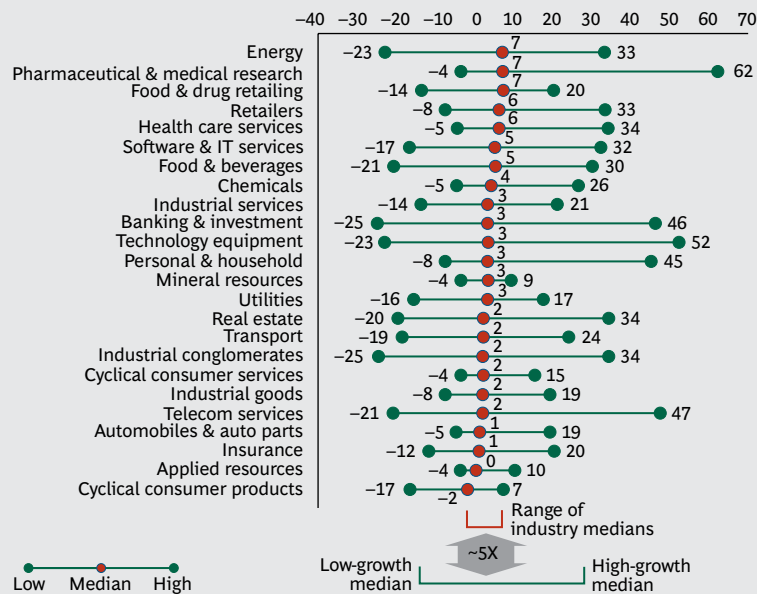


Source: BCG analysis.

Note: Because of rounding, not all percentages add up to 100.

EXHIBIT 2 | Growth Is Possible

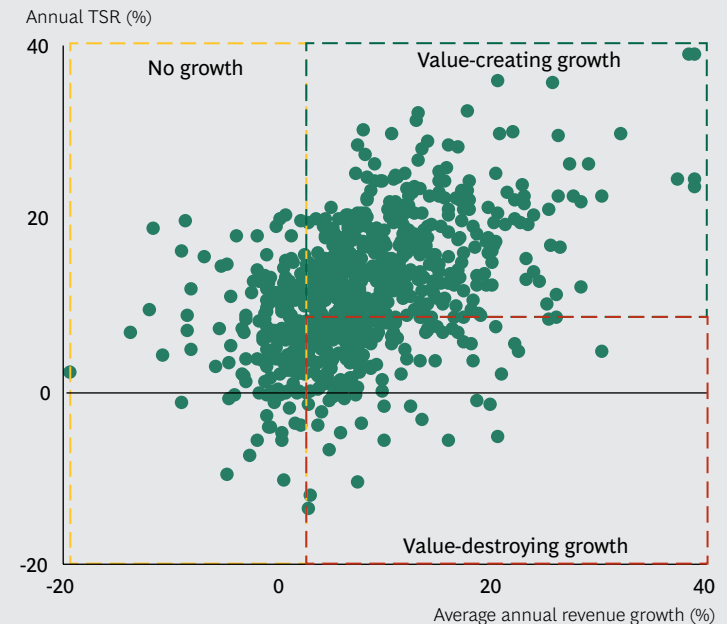
Revenue CAGR, S&P 1200 Global, 2008–2012 (%)



Source: BCG analysis.

EXHIBIT 3 | Growth Is Perilous

Revenue Growth and TSR (S&P Global 1200, 2003–2013)



Source: BCG analysis.

closer look, however, reveals patterns. First, among the heterogeneity of growth strategies, we found three archetypes that tend to be successful. These were linked, importantly, to a company's starting position. Second, while we saw great variety in these strategies (the *what* of growth), there was consistency in the disciplines followed by those companies that delivered it (the *how* of growth).

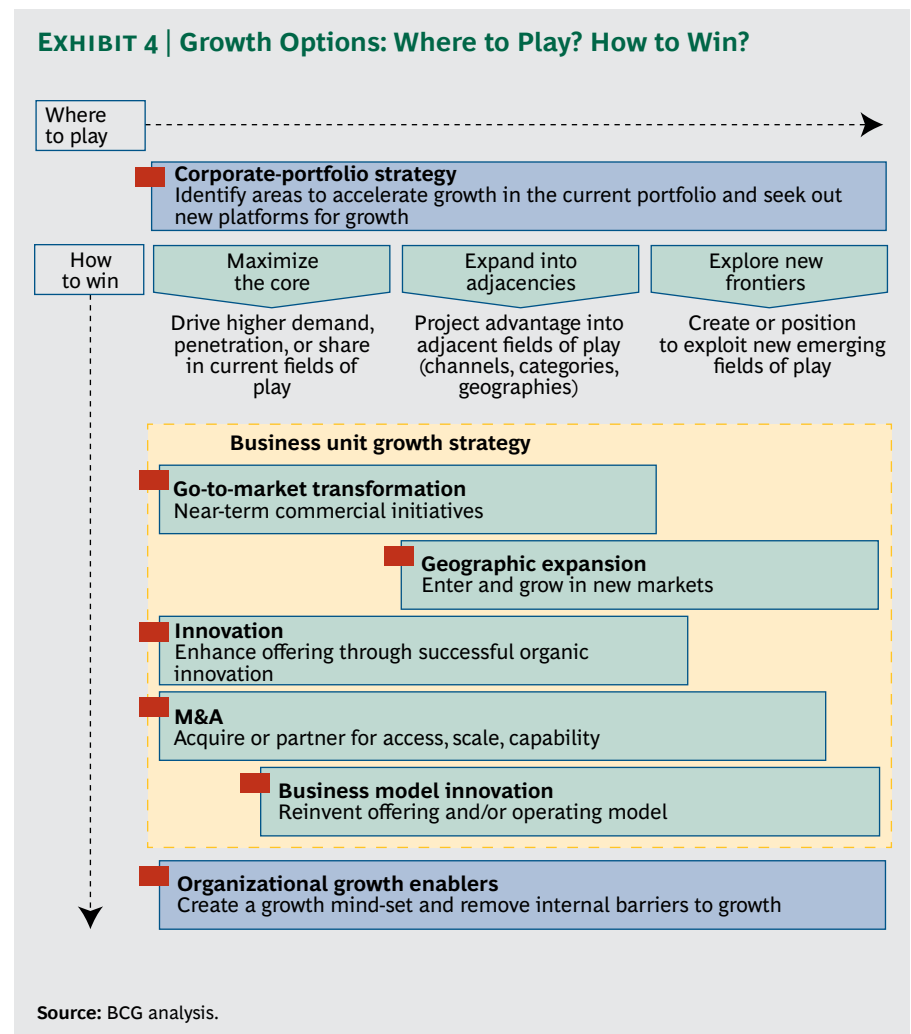
Choosing a Growth Path

The *what* of growth can be summarized as a cohesive set of decisions about where to play and how to win. Deciding where to play means allocating bets and resources across the core, adjacencies, and new frontiers. Core bets involve finding headroom in market share or customer demand within the current footprint of the business. Adjacency bets extend current advantage into nearby offerings, channels, or geographies. New-frontier bets are longer throws that more dramatically reimagine offerings or business models—or find new uses for old assets. These choices determine the field of play but

once made, require additional choices about where a business will invest to win on the field. We suggest seven how-to-win levers that can be differentially employed for success.

- *Corporate-Portfolio Repositioning.* For multibusiness companies, which businesses and geographies have the greatest value-creating growth potential, and which the least? What are the implications for investment allocation, key performance indicators, and divestment?
- *Go-to-Market Transformation.* What opportunities exist to drive growth through changes in marketing and sales strategies? How can we embrace radical changes in customers' purchasing pathways and leverage tools such as digital marketing and big-data analytics?
- *Geographic Expansion.* Which new markets offer the best growth prospects? For developed-world companies, which emerging markets offer the most potential and what moves are required to achieve market leadership? For developing-world companies, how to prioritize expansion opportunities beyond the home market?
- *Innovation.* What is the right investment mix between enhancements and extensions to existing products and services, on the one hand, and new and new-to-the-world products and services, on the other?
- *Mergers and Acquisitions.* Can we accelerate our penetration into new geographic markets or market segments and our access to critical technologies or capabilities, and can we travel faster down the scale curve by buying rather than building in-house?
- *Business Model Innovation.* What changes are needed to access attractive opportunities that lie outside the economic reach of the current business model?
- *Organizational Moves.* What approaches to leadership, culture, talent management, and capability development are best suited to support the chosen growth strategy? Are these supported by the current organization design?

Exhibit 4 illustrates the interrelationships among the various strategic choices at the heart of growth strategies. Limited resources (and good sense)



argue against investing everywhere. Valuable growers make decisive choices, but the choices differ. So how is the right path to be discovered?

Starting Point Matters

We studied 1,600 companies to bring some evidence to bear on the question. Of these, we selected for companies that first experienced a period of stagnant growth but then rallied to deliver a rate of revenue growth that was at least two times that of their peers for a period of more than five years. These “uphill growers” (of which there were only 310) provided a critical

insight: *starting position matters*. A company's starting position influences the probability that a dollar invested in growth will deliver shareholder return. And it also suggests preferred investment patterns across the "where to play, how to win" field.

We define starting position along two dimensions. The first is *competitive premium*: Does the company command a gross-margin advantage over its rivals? The second is *competitive stability*: Is the business characterized by equilibrium (relatively steady market shares, stable demand, or high entry barriers) or by turbulence (competitive churn, disruptive technologies, or fast-changing consumer behavior)?

Our research revealed three archetypal starting positions, described below, that suggest distinct pathways to value-creating growth.

Fortress. Companies in stable markets with a strong competitive premium occupy this position. For them, winning growth strategies typically involve reinforcing and extending the advantaged core. The investment focus is on both strengthening the core premium and expanding into close adjacencies. Go-to-market transformation, geographic expansion, innovation, and M&A are the most common levers. This is the path Procter & Gamble followed in the first decade of the 2000s. First it retuned its portfolio—divesting many noncore food and beverage brands. It then captured growth through attractive adjacencies, notably the Gillette acquisition, and through organic innovation in new categories and new brands, like Swiffer and Febreze.

Fading. Companies in stable markets with a low competitive premium fall into this category. Their path to value-creating growth commonly calls for more dramatic action, rebalancing the portfolio through disinvestment or divestiture and pursuing more distant adjacencies. In this case, the dominant growth levers are portfolio optimization, innovation, and M&A. Britain's *Daily Mail*, facing declining print-advertising spending, stabilized the core and freed up cash for growth investments through operational initiatives and the sale of noncore assets. It then made decisive investments in digital capabilities and launched *Mail Online*, today the top global newspaper site, generating revenues that more than compensate for the decline of print.

Fluid. These companies operate in turbulent, unstable markets. Breakout growers often choose multiple options for growth by placing their bets across the core, adjacencies, and new frontiers. This positions them to

rapidly adapt to and exploit changes in the market landscape. Success comes not from prescience but from agility. Innovation and acquisitions are the primary levers for growth. Fashion is a fluid sector, and in the early 1990s, Hugo Boss found its traditional focus on expensive men's suits to be increasingly off-trend with the rise of business casual. The company reignited growth through a series of bets outside its traditional core, making investments in women's wear, kids' wear, sports clothing, even home goods—as well as in new channels.

Embarking on the Growth Journey

While our uphill growers were diverse in their starting positions and strategic choices, they followed common disciplines to achieve valuable growth. Among our clients, we have found these lessons on the how of growth to apply nearly universally:

- The nature, number, and risk profile of growth initiatives cannot be set without a clear view of the gap to be closed. The start of any successful growth strategy requires an honest and rigorous assessment of the growth of all current initiatives, a clear and shared upside growth objective, and quantification of the gap between them over the plan horizon.
- The effort spent looking outward at the marketplace must be matched by the effort spent looking inward at a company's unique advantages and capabilities. Hidden advantage can be missed. Known advantage may be overstated relative to traditional or maverick competitors. And today's advantage can be rendered obsolete or even become a liability as consumers, customers, and industries change.
- To best leverage their advantage, companies must stretch their thinking. New perspectives can upend long-standing beliefs about "stagnant cores" or "distant adjacencies." Often, faint signals lost in the noise of today's core suggest opportunities. And unattractive adjacencies can become attractive when paired with an acquired capability, or when their collateral value in reinforcing the core is considered.
- For many companies, finding growth ideas is less difficult than focusing on the ones that matter. We like to ask three questions of all growth ideas: What is the size of the prize? What is our right to win? And what is the path to success? A strong business case is built on these three questions, and a strong strategy is built on a cohesive, qualified set of business cases.

Above and across all of these disciplines, one observation recurs among valuable growers: they pursue growth in the right order. They first earn the right to grow through operational efficiencies and the cultivation of advantage in the core business—whether that advantage comes from strong brands, cost control, or better customer insight. And as they pursue growth, they bring the same creativity and discipline to funding that growth through concurrent operational and cost initiatives. Repeatedly, our breakout, value-creating growers demonstrated the ability to hold or expand margins as they grew.

EVEN WHEN YOU HAVE a growth strategy that is clear in ambition, creative in ideation, discriminating in investment, and supported with leadership and funding, two hurdles remain.

Internally, the operational effectiveness that earns a company the right to grow can often restrain growth. Strong operators fight waste, avoid uncertainty, concentrate on the near term, and replicate past success. But breakthrough growth frequently requires a tolerance for experimentation and a departure from past playbooks. Shifting to a growth mind-set requires doing some things differently, without degrading the core and its foundational advantages. This balancing act, whether achieved by luck or design, explains the success of most of our breakout growers. Operationally strong incumbents can make moves to redefine their business, create distinct attack structures, and gain needed capabilities through partnerships, new hires, or acquisitions. Better to bet on these than on luck.

Externally, building credibility with investors about growth investments, especially their risk profile and speed of payback, is a critical enabler of breakout growth. Growth strategies require capital and don't pay off immediately. Successful migration toward an investor base that embraces the growth strategy usually requires a clear medium-term roadmap, several quarters of transparent communication, and "doing what we said we would do." Most of all, companies need to keep their investor messaging realistic, talking candidly about the drivers of performance and returns.

As with most things worthwhile and difficult, valuable growth has its reward. Organizations are strengthened, share price responds, and a virtuous circle is initiated in which expansion creates fuel for further expansion. Across companies that get there, we see diversity but not randomness. There are

patterns of investment keyed to starting position, employment of both short- and long-term growth levers, and equal attention to external change and internal advantage. Players that master these disciplines can, across every industry, grow when the growing gets tough.

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TAKING A PORTFOLIO APPROACH TO GROWTH INVESTMENTS



ONE OF THE MOST powerful tools available to CEOs and CFOs to drive growth is their company's approach to capital allocation across its portfolio of businesses. Unlike more operational levers for growth, decisions about capital allocation are fundamentally strategic: they determine the long-term asset base on which future value creation depends. Done correctly, capital allocation can be a highly effective means of delivering on the corporate growth ambition.

And yet, despite its importance, the way many companies allocate capital is remarkably haphazard. In our work with clients, we often encounter a variety of ineffective practices:

- “*Democratic*” capital allocation. The organization spreads investments more or less equally across business units, irrespective of their previous performance or future growth prospects.
- “*The biggest children get the most food.*” The organization allocates capital on the basis of the business unit's size, with the biggest units in the portfolio getting the most cash, even though such businesses often have the least growth potential.
- “*We've always done it this way.*” The organization sets a given year's investment budget on the basis of what was done the previous year, looking backward to past internal practice rather than forward to future business potential.

There is a better way. Research by The Boston Consulting Group and client experience suggest that capital allocation at the top value creators is characterized by two distinctive practices.¹ First, these companies take a highly differentiated approach to allocating capital among

business units in the corporate portfolio. Second, they translate strategy into action by linking strategic priorities to capital allocation, financial plans, and specific growth initiatives and by actively managing the corporate investment portfolio from the top. This approach has four steps.

Prioritizing Growth Among Business Units

Nearly all businesses grow to some extent, but not every business unit can be a corporate growth engine. The first step, therefore, is to understand the different roles of different units in the company's overall growth portfolio and strategy.

For example, some businesses may be large and profitable but so mature that they have little growth potential; these cash cows should be providing cash so that other businesses can grow, not using it themselves. Other businesses may have growth exposure but few or no sustainable competitive advantages. They need to be fixed before they can grow; otherwise, growth will likely destroy value. Still other businesses may have considerable long-term growth potential but may be so small that growth in the near term will not yet contribute substantially to the company's overall growth rate. Only those businesses that are large enough, profitable enough, and growing fast enough can serve as the company's principal growth engines; they should receive the lion's share of growth investments.

To determine the roles that different business units can play in the company's portfolio, it is important to evaluate each one in terms of three different but complementary perspectives. The first perspective focuses on the dynamics of the *market*: Is the market, customer segment, or region in which the business unit operates growing? If so, is the business in a position where it can grow? This perspective is similar to that of the traditional BCG growth-share matrix.

The second perspective focuses on the *financial* position of the company's business. It is a paradox of growth that while superior total shareholder return over the long term is predominantly driven by growth, not all companies that grow necessarily deliver value. So senior executives also need to ask, Is growth in this business likely to create value? Or will it come at the cost of eroding gross margins or of increasing our risk profile and eroding our valuation?

Finally, in establishing a company's strategic priorities for growth, senior corporate executives must also assess the prospects of each business unit from an *ownership* perspective: Are we the best owner to grow this business? Does the business have synergies with other businesses in the portfolio? In short, how does growth in this business contribute to making the performance of the portfolio as a whole better than the sum of its individual parts?

The last perspective makes clear that it's not enough to consider each individual business unit on its own. Rather, its strategic role should be considered in the context of the portfolio as a whole. Does the portfolio have a good balance, for instance, between short-term and long-term growth businesses? In situations where access to capital is limited, are there enough cash-generating businesses to fund businesses that will use the cash to deliver value-creating growth?

It is striking how frequently companies fail to ask and answer these questions—and what they discover when they finally do. BCG was recently asked to help a major European chemical company develop a growth strategy. When we took the company's senior executives through this three-part exercise, they were surprised to learn that the investment ratio (the ratio of capital expenditures to assets) was substantially smaller in the company's "growth" business units than in its nongrowth units—precisely the opposite of what the executives had assumed.

Translating Roles into Actions

It's one thing to define the different strategic roles of the different business units in the corporate portfolio. It is quite another to translate those roles into actions through the establishment of KPIs, performance targets, capital budgets, and, ultimately, detailed business and financial plans. (See *The Art of Planning*, BCG Focus, April 2011.) This is another area where a customized approach is necessary.

Take the example of KPIs. Many companies use exactly the same KPIs to manage each business unit in the portfolio—usually on the theory that consistency is important or for reasons of "fairness." But a large mature business that generates a lot of cash but has minimal growth prospects shouldn't be assessed the same way as a small business that produces far less revenue but has strong growth prospects. In the former business, one of whose primary roles is the provision of cash to fund promising growth

businesses, cash flow margin will be the KPI. In the latter, however, the rate of revenue growth will be far more important.

Once senior executives at the chemical company had systematically classified their business portfolio, the next step was to establish a set of rules that made it possible to focus the company's capital expenditures on its genuine growth opportunities. According to these rules, cash cows could invest no more than 50 percent of their operating cash flow back into the business. Distressed businesses in need of a turnaround could invest only in initiatives that had payback within two years. These rules freed up cash to invest in the portfolio's growth engines.

Differentiating Among Types of Growth Investments

When it comes to translating such high-level rules into the details of financial plans and budgets, different types of growth investments also need to be evaluated differently. Too often, companies evaluate every potential growth initiative in terms of net present value. But that approach can lead to an overemphasis on clearly defined, incremental short-term investments—at the cost of neglecting more long-term but strategically important investments whose net present value is uncertain or difficult to calculate.

All growth investments are not created equal. Basic research, technology platform investments, product development, and product updates all have different profiles in terms of ability to forecast financials, payback, and risk. It makes sense to assess a simple product update in terms of the revenue it is likely to generate in the next one to two years.

But that criterion will be inappropriate for longer-term initiatives such as the development of a new technology platform in which short-term revenue will be highly uncertain (or even nonexistent). Better to evaluate such an investment in terms of the likely strategic options that the platform makes possible over a far longer term.

In prioritizing among different types of growth investments, the general principle should be to compare “like with like.” Start by defining different buckets of growth investments. Given the company's strategic priorities, how much should be invested in basic research, product development, or product updates? Once the corporate center sets the global budget for each type of growth bucket, it can prioritize investments within each bucket on the basis of criteria appropriate for that type of investment.

Actively Managing the Investment Portfolio

Finally, once capital allocation decisions are made, the corporate center must actively manage the investment portfolio over time to make sure that initiatives stay on track and to maximize flexibility. The best way to do so is by establishing an interdisciplinary investment committee made up of representatives from key constituencies such as strategy, finance, operations, and R&D. The committee's primary task is to continuously evaluate the overall investment portfolio to ensure a good fit with the company's strategic growth priorities.

Investing in growth, however, isn't just about money; it's also about people. The investment committee must direct senior management attention and talent to critical growth projects in order to ensure quick execution and to resolve obstacles and roadblocks. Executives on the committee need to think much like venture capitalists do: invest in the team, not just in the idea or project. Doing this effectively requires a tight link among the committee, operations, and HR.

Most important, the investment committee must regularly monitor project execution and approve additional funding. The best approach is to establish “stage gates” in which budgeted capital is released in phases and only when certain intermediate performance criteria have been met. This approach is especially important for growth investments. Since payoffs are often uncertain and market conditions can change rapidly, growth projects need to be adjusted frequently. Because regular monitoring and frequent adjustments limit the downside, they make it possible for the organization to take on more risk when it makes good business sense to do so.

BY FOLLOWING THESE FOUR steps, senior corporate executives can substantially improve their company's overall growth trajectory. The chemical company, for instance, was able to raise its growth rate from the bottom fifth of its peer group to well above average—and without any increase in the overall quantity of investment. At a time when growth is increasingly hard to come by, what leader could ask for more?

NOTE

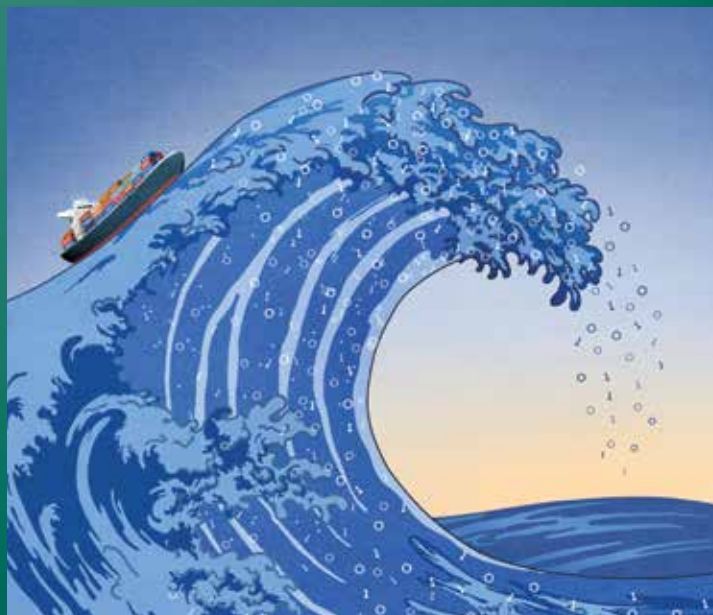
1. See Ulrich Pidun et al., “Corporate Portfolio Management: Theory and Practice,” *Journal of Applied Corporate Finance* 23, no. 1 (Winter 2011): 63–76.

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GROWTH FOR FREE

EMBRACING THE GO-TO-MARKET REVOLUTION

IN THE CURRENT ENVIRONMENT of uncertainty and financial constraint, too many companies have looked to their go-to-market functions—sales, marketing, pricing, branding, and customer insight—for savings, not growth.

A small set of successful companies are taking a different path. They are transforming their commercial functions and capabilities to create an engine of short-term revenue growth and long-term profit. And they are doing so with little risk—because the creation of these strategic capabilities more than pays for itself via growth of the top and bottom lines. In essence, it's growth for free.

These leading companies are taking advantage of what The Boston Consulting Group calls the “Go-to-Market Revolution.”

The Go-to-Market Revolution is a wave of technological and customer-driven change that is altering the level of sophistication with which companies can deploy their commercial capabilities. This new era hasn't altered the fundamentals required for go-to-market excellence, but it is creating important new possibilities. It is taking what is now possible—the current state of the art in commercial functions—to the next level.

A Revolution Driven by Three Tides of Change

Three tides of deep-rooted change are driving the revolution. The first is the dramatic shift, in almost every industry, of what BCG calls customer pathways—the ways customers learn and communicate about products and services on the path toward a purchase. What was once a company-centered world with carefully crafted information broadcast to customers through a handful of channels has evolved into a customer-centered and much more transparent universe of Internet connectivity, Web searches, cable channels, peer-review marketing, and mobile devices and apps. Customer trust is a critical source of sustained competitive advantage, and it needs to be

managed as a line activity. Brands must be backed by high-quality products and authentic corporate missions. Marketing teams must be capable of managing greater personalization and faster feedback loops.

Second, technology and advanced analytics are providing a powerful new arsenal of tools for sales and pricing teams, marketers, and researchers. The concept of segmenting markets by geography or customer type has been around for decades. What's different now is that digital and mobile technologies allow access and analysis of enormous quantities of sales and marketing information at a more microscopic level than ever before. Companies can quickly and inexpensively gather data from the field without an army of IT specialists and data experts. Cheap and effective data manipulation is leveling the playing field for smaller companies. It is revolutionizing sales force deployment, customer segmentation, product promotion, and return on marketing investment.

Third and finally, companies now navigate a globalizing world that requires most of them to compete in new markets, often against unfamiliar rivals. Globalization has destabilized brands and prices and empowered new developing-world challengers. It is shortening product cycles and speeding shifts in consumer tastes. At the same time, it has driven rapidly expanding wealth in emerging economies, making them a huge potential source of growth.

The three tides of change are accelerating and have contributed to the disruption and heightened competitive pressures that affect virtually every global industry today. At the same time, they have bred a new and dynamic commercial environment. For business leaders with ambition and foresight, the Go-to-Market Revolution offers a multitude of fresh opportunities to attract and engage customers and to drive growth and profitability. As one business leader put it: "If you are doing things the same way you did them three years ago, you're almost certainly doing something wrong."

One consumer goods company, for example, hired 4,000 part-timers to input on their Android phones sales and retail data from hundreds of thousands of retail outlets in Southeast Asia. The company then carved an area it has formerly treated as two large regions into more than 1,500 segments. Deploying the data with mobile sales force tools enabled incremental growth of more than 10 percent.

A Self-Funding Go-to-Market Transformation

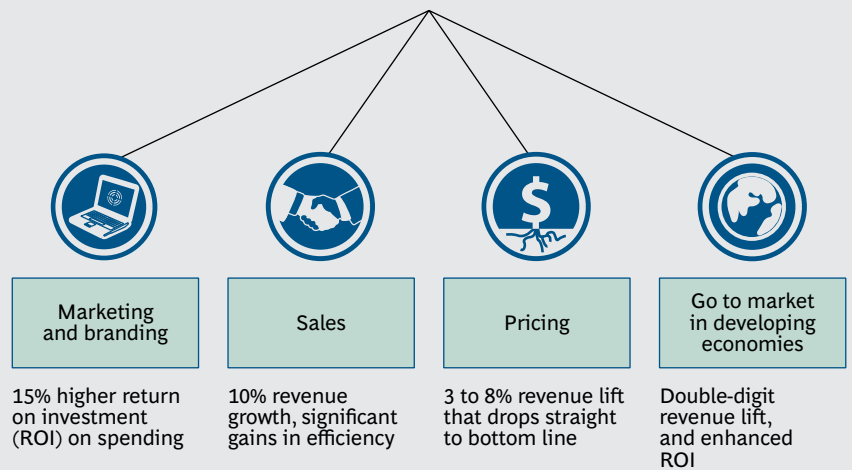
A go-to-market transformation aggressively retools a company's commercial functions—sales, marketing, pricing, branding, and customer insight—to exploit the new possibilities while navigating a fast-moving landscape. It adapts processes to changing customer pathways and needs, prepares the company to face new global markets and competitors, and arms its go-to-market teams with the latest and most effective technology.

There is a rich prize for leading-edge adopters that ride the wave. Through comprehensive go-to-market transformation, companies we know are able to capture 10 percentage points or more of incremental growth. Some expand margins by 5 points or more. Every commercial area has the potential to contribute significant growth and margin. (See the exhibit "Tallying the Benefits of a Go-to-Market Transformation.")

Go-to-market transformation is a particularly potent lever for growth because it exploits tactical, short-term victories to fund broader commercial transformation over the medium term. For example, one company started with a sales force effectiveness program that drove more than \$20 million in near-term value—an early success that energized the organization and

Tallying the Benefits of a Go-to-Market Transformation

Aggregate growth of more than 10% is achieved by transforming multiple commercial functions and capabilities



Source: BCG project experience.

Note: These overall results from go-to-market transformations reflect a company undertaking a subset of functional programs; efforts across all functions would have more dramatic results.

created a financial foundation for a broader go-to-market transformation. From such beginnings, the ambitious company funded a larger set of programs, which in turn produced a step change in both commercial capabilities and value delivery.

This transformational approach contrasts with conventional attempts to adapt through continuous improvement—a recipe for simply keeping pace with market growth. Our view is that, for most companies, the current scope of change in the commercial landscape is too disruptive for incremental change to be effective. Maximizing value requires an aggressive and dedicated response.

Commercial transformation has a confirmed record of success in generating growth for a broad range of companies worldwide. They include a global manufacturer of mobile handsets, a European gas and energy utility, a U.S.-based retail bank, retailers, postal operators, and media companies.

The resulting revenue benefits are powerful in today's era of difficult growth, when even modest revenue growth can create substantial shareholder value. Mature companies that increased their top line by just 2 percentage points or more delivered shareholder returns 40 percent higher than the market average.

Growth Zealot or Go-to-Market Laggard?

Your company can ignore the potential benefits of the Go-to-Market Revolution, but it can't avoid the perils of failing to take part. The gap between capability leaders and laggards is growing.

If you are prepared to be a zealot for growth, here is a sample sequence of actions and best practices to consider.

- *Start with vision and ambition.* Does your company currently have the vision to transform your go-to-market capabilities? Do you have the ambition to increase your top line 10 or 20 percent beyond current projections in the next few years? A necessary first step is helping your leadership team understand the opportunities inherent in the Go-to-Market Revolution.
- *Undertake a quick initial diagnostic step.* Map how your customers' purchase pathways have changed. Assess your commercial capabilities: marketing, pricing, sales, branding, and insight. Determine where you

stand compared with best-in-class competitors and identify which commercial functions offer the greatest near-term opportunity.

- *Tailor a series of programs to build capabilities and improve performance simultaneously.* For example, start with a high-impact pricing initiative. Some leading companies we know have begun with a pricing program that added tens of millions of dollars to the bottom line. Simultaneously, the programs have funded development of new pricing tools and capabilities, such as sophisticated discounting, mobile technologies, and advanced analytics.
- *With initial success in place, expand your efforts rapidly.* For example, launch a program that boosts marketing effectiveness—such as a brand advocacy campaign. Then launch another—such as a sales-activation initiative—to equip your sales force with a technical arsenal of twenty-first-century tools.

Make no mistake, you may need several waves of activity to meet your objectives in each commercial discipline. Indeed, achieving your overall profit and strategy goals will take years, not months. If it's done right, however, the journey will more than pay for itself. What is more, every growth gain and each advance in capabilities can create a reinforcing cycle of improvement for the entire enterprise.

Crucial to success in this endeavor is capable executive leadership. Company leaders must be committed to guiding and supporting the transformation across all three tides of change that drive the Go-to-Market Revolution: the new and uncharted pathways your customers are taking to discover and purchase your products; the evolution of data, advanced technologies, and analytics that can rearm your commercial teams; and the rise of emerging markets, which brings new growth and also new global competitors.

These are real challenges. For the bold, though, they present powerful paths to competitive advantage.

The growth zealot must be a leader—able to inspire executives, managers, and employees; capable of transforming the whole by reinventing its parts; committed to forging a new commercial future for the enterprise.

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TIME TO REENGAGE WITH, NOT RETREAT FROM, EMERGING MARKETS



THESE ARE CHALLENGING TIMES for emerging markets. China's economy is expanding at the slowest pace in more than a decade, and annual growth in once-booming nations like Brazil, Mexico, Russia, and South Africa has slowed to about 1.5 to 2.5 percent. Look around the developing world, and currencies are weakening, worries about asset bubbles and rising debt are mounting, and foreign direct investment has fallen sharply. This volatility leaves many companies wondering if they are overexposed to the risks of emerging markets.

The challenges in emerging markets go beyond volatility. Fundamental, longer-term changes are transforming the competitive landscape. In most emerging markets, domestic companies with low cost structures and intimate knowledge of local consumers are more aggressive and are quickly improving their operations. Competition for increasingly scarce talent is fiercer and is driving up labor costs. Such trends are hurting profits. In China, for example, the share of U.S. companies reporting that their operating margins were higher than the global average dropped from about 50 percent to just over 30 percent between 2010 and 2013, according to the American Chamber of Commerce in Shanghai.

Still Where the Action Is

But companies that plan to look for the exits or scale back in emerging markets should reconsider. The most fundamental trends remain promising. One is that emerging markets will remain an unmatched source of growth in most industries. Another is that hundreds of millions of households will continue to join the ranks of the middle class and affluent in the decade ahead.

Despite the discouraging headlines, emerging markets are more important today than ever before. Even with all the turbulence in 2013, these economies accounted for 68 percent of global growth. Although the overall pace has slowed, Oxford Economics projects that GDPs of emerging markets will grow 2.2 percentage points faster than those of developed economies over the next four years. Just in terms of infrastructure, demand for investment in emerging markets will total a stunning \$25 trillion through 2025, according to some estimates.

The biggest driver of growth will be rising incomes. The Boston Consulting Group projects that in Turkey, an additional 6 million households will enter the middle and affluent classes in the next five years. In Indonesia, we project that 68 million people—roughly equivalent to the entire population of the UK—will make a similar leap by 2020. Thirty-seven percent of Brazil's 60 million households will belong to the middle and affluent classes by 2020, compared with 29 percent now, and will represent a \$1.2 trillion market. In China and India, such households will represent \$10 trillion in buying power. Companies will have to look beyond a country's GDP and focus instead on the more significant factors that will generate growth: rising consumption by relevant segments of consumer markets, and signals that purchasing power is about to take off.

To win in emerging markets, executives will need to rethink their approaches. As many of these economies make the transition from superhigh growth, tapping major new sources of revenue will become harder than in the past. Executives should adopt a more differentiated approach to emerging markets and market segments. Companies should build new capabilities, adjust their business models, and improve their execution. We believe that the following are the primary corporate challenges.

Refining the Emerging-Market Footprint. Growth prospects, consumer behavior, and the local competitive environment differ widely from one emerging market to another, as well as among industries. Each company must define the most promising emerging-market priorities, taking into consideration its own unique context and starting point.

We offer two specific ideas for how executives should revisit their market portfolios. First, they should think beyond the popular acronyms. In the past few years, attention has been focused on the so-called BRIC economies—Brazil, Russia, India, and China. More recently, there has been increased talk about MINT (Mexico, Indonesia, Nigeria, and Turkey). Of course, no compa-

ny with global aspirations can ignore China and India. But companies should also build positions in markets that may offer better opportunities in the short term. While many multinational companies still target Indonesia, for example, material opportunities are also opening in adjacent Southeast Asian economies such as Vietnam, a recharged Philippines, and the frontier market Myanmar. Africa is also drawing greater attention from multinationals. Hyundai, for example, has surpassed Toyota in the five African countries that account for 70 percent of new-auto sales: Algeria, Angola, Egypt, Morocco, and South Africa. Samsung, also of South Korea, has set two goals for 2015: achieving \$10 billion in African sales and training 10,000 African engineers and technicians in order to develop the capabilities it needs to succeed. (See *Winning in Africa: From Trading Posts to Ecosystems*, BCG report, January 2014.)

Second, executives should simplify their strategies in order to expand and compete. Rather than always approaching each country individually, for example, they should think in terms of clusters. The sheer challenge of understanding and winning in more than 100 emerging markets can be so intimidating that most executives dare not try. So they should develop strategies to address promising segments across a number of neighboring countries or consider regional sourcing strategies in order to achieve critical mass. In Southeast Asia, for example, one major automobile company is taking advantage of the region's free-trade pact to manufacture diesel engines and steering columns in Thailand, transmissions in the Philippines, gasoline engines and parts in Indonesia, and engine control units and steering gears in Malaysia. (See *Beyond BRIC: Winning the Rising Auto Markets*, BCG report, October 2013.)

Winning Over More Demanding Consumers. Emerging-market consumers expect more from foreign brands than they used to. Even average consumers in the lower rungs of the middle class are quality conscious. They can no longer be consistently won over by Western or Japanese products whose features and functions have been stripped down in order to hit a certain price point.

One reason for this development is that the quality gap between foreign and domestic products is closing fast. China's Haier, for example, has emerged as the world's largest appliance maker, in part because of its obsession with quality, according to a recent article in the *Economist*. Haier began by establishing a reputation for high-quality products and service in China. When it expanded overseas, Haier first pushed into the U.S. and Europe—

rather than into less competitive markets such as Southeast Asia and Africa—because it wanted to learn how to meet the demands of the world’s most sophisticated consumers. As a result, Haier’s revenues have increased fourfold since 2000, topping \$26 billion in 2013.

Multinationals must also move beyond selling off-the-shelf products and services that are aimed at the top of the income pyramid in emerging markets. Yum! Brands’ famous success story in China, where it has averaged annual growth of about 30 percent, is based on a strategy of customizing its restaurant concepts to local tastes, from restaurant design to food choices.

Adapting to the Big Competitive Squeeze. A decade ago, many multinationals regarded their global peers as their main competitors. This orientation has fundamentally changed. Foreign companies in emerging markets are being squeezed by different kinds of players.

One major source of competition is what BCG refers to as “global challengers”—fast-growing, globally minded companies with roots in emerging markets that are on track to establish leadership positions and to fundamentally alter their industries. In fact, 124 of the global *Fortune* 500 companies for 2013 were headquartered in emerging markets—more than double the number in *Fortune*’s 2008 list. In a recent BCG survey of more than 150 multinational executives, 40 percent of the respondents said they regarded other multinationals from developed economies as their primary competitive threats in emerging markets. But a greater proportion—50 percent—saw multinationals based in emerging markets as their main threats. (See *Playing to Win in Emerging Markets: Multinational Executive Survey Reveals Gap Between Ambition and Execution*, BCG report, September 2013.)

A second major challenge comes from companies that we call “local dynamos”: smaller emerging-market companies that focus only on their domestic markets. Such companies are catching up in terms of performance and distribution. They also have developed an intimate understanding of local consumers and strong relationships with local governments. In Brazil, where Wal-Mart Stores and Carrefour are both investing aggressively, the regional supermarket chain Super Muffato is the market leader in interior cities in the country’s south and in cities with more than 300,000 residents in the state of Paraná. Its 40 stores are just as profitable as stores in bigger cities owned by major international chains. For such reasons, 78 percent of the multinational executives in our survey said they regard domestically focused

companies as principal threats in emerging markets. In other words, these local companies are viewed as more serious rivals than other multinationals or new global challengers.

Meeting the Higher Expectations of Local Partnerships. Multibillion-dollar cross-border mergers and acquisitions in emerging markets tend to grab headlines. But the real payoff on the ground for foreign companies is less than satisfying and often is not far-reaching. Organic growth, however, is challenging. To succeed, companies will have to up their game both in M&A and in forming local partnerships. While the rationale for and approach to a partnership agenda must be thought through in detail and tailored to each company’s own context, the emerging-market landscape is already witnessing different approaches to partnering.

One challenge for executives is to address the higher expectations of local partners. Emerging-market joint ventures in many sectors were traditionally based on a simple pact: foreign companies provide access to technology, capital, and sophisticated management solutions while domestic partners provide market access, government relationships, and, in many cases, low-cost production.

But this relationship has become obsolete. Today, partnerships between foreign and emerging-market companies are on a more equal footing. Local partners may inject capital or contribute valuable technology. They may even insist on a global partnership. When a Japanese provider of hospital equipment recently approached three preferred local-partner candidates for the India market, each company requested not only to help build up the local business but also to be the partner for expansion into other overseas markets. Indian motorized-vehicle manufacturer Bajaj Auto formed an alliance with Japan’s Kawasaki to obtain technology support for new-product development and to address a wider range of markets at home and abroad.

Organizing for Global Success

If a company views emerging markets as important to its success, this must be reflected in its organization structure. We see four imperatives regarding organization in these markets.

A Seat at the Table. One critical element is the way in which the corporate center supports its overseas units. Frequently, companies marginalize their

organizations in emerging markets, all but guaranteeing that they will underachieve. They do not have a proper seat at the table of decision making, corporate strategy, and product development and have insufficient access to capital and people. If these markets are to deliver a larger share of growth, they deserve a *disproportionate* share of attention and support. At the home-product and beauty-care-product direct-sales company Tupperware Brands, which generates more than half of its annual sales in emerging markets, CEO Rick Goings is on the road 70 percent of the time, much of it in developing nations. Members of Siemens's board learn about important emerging markets by spending two days in a region meeting with customers, government officials, and other key stakeholders.

An Accelerator Mind-set and Organization. Multinational companies must adapt their organizations so that they can better cope with the tremendous speed with which many emerging markets are developing. Fast decision making and consistent execution are paramount to compete with what we call the “accelerator mindset” of many emerging-market companies, such as their relentless pursuit of growth. Copying organization and governance structures that are successful in home markets may put multinationals at an unnecessary disadvantage against their local peers.

True Market Immersion. The most important imperative relates to leadership and people. Upper management must be familiar with emerging markets, ideally through on-the-ground experience. Senior executives must also remain sufficiently exposed to key customers, distributors, partners, and government officials in these markets. Too often, a foreign company's senior executives experience only new airports and five-star hotels, rather than the realities of living on the ground.

Talent as a Competitive Advantage. Typically, foreign companies are at a competitive disadvantage when it comes to recruiting top local talent. Talent is increasingly scarce, and attrition is high. Two out of three Indonesians change their employer within the first three years, for example, and one out of three does so more than once. The annual attrition rate in India is close to 15 percent.

This high turnover suggests that executives must redouble their efforts to attract, develop, and retain local talent. They should also work harder to build organizations for the long run in emerging markets. When filling management positions, they must move away from the traditional practice of “expatriate stints,” in which a manager from headquarters is assigned to an emerging market for about three years. Instead, executives must invest in

future local leaders. They should expose top emerging-market talent to global activities and get them excited about their future growth potential in a company where individuals can thrive independent of their nationality. Wherever possible, leaders should instill in their companies a global mind-set, in which a diversity of backgrounds is understood to contribute to international success.

Success in emerging markets has become more challenging than it was in the past. But there is still plenty of opportunity for growth—most likely more than developed economies can offer. Rather than retreating from emerging markets, it's time for executives to retool and reposition their businesses for sustained success.

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RETHINKING YOUR INNOVATION SYSTEM



COMPANIES KNOW THAT INNOVATION is one of the keys to growth. Seventy-five percent of the respondents in BCG's report *The Most Innovative Companies 2014: Breaking Through Is Hard to Do* (October 2014) ranked innovation as a top-three priority for their company; 22 percent said it was their company's top priority. More than 60 percent said their company planned to increase investment in innovation in the coming year.

So where are the results?

Companies are the first to admit that there is room for improvement. CEOs question whether they are getting a return commensurate with their investments. Many innovation managers express frustration that their teams are not developing the successful new products and services—or the compelling product or service extensions—that they seek.

Compounding those challenges, the bar is being raised. Customers, used to continuing progress and improvement, expect more. New technologies, especially digital advances, have conditioned customers to expect it more quickly. But long-used innovation models no longer keep up. Processes are too slow, dragged out by too many rigid stages and gates to clear. Decision making has become overly complicated and consensus based, resulting in compromised, incremental solutions with little chance for a big impact.

As customer expectations grow and markets evolve more quickly, companies can't expect to innovate in the ways they used to. Innovation models themselves need to be systematically innovated, rethought, and updated.

On the basis of our experience working with hundreds of companies to reinvigorate their innovation strategies and processes, we suggest that executives seeking to sharpen their innovation edge follow a few organizing principles.

Approach Innovation as a System

In our view, innovation is a system: a mixture of insight and creativity, as well as a disciplined process that consistently promotes progress. This system has three major components: a strategy comprising choices on where and how to create growth and value through innovation; a supporting set of processes for research and product development; and an enabling set of systems, tools, and capabilities. (See the exhibit, “World-Class Companies Treat Innovation as a System.”) The system should be rooted in experimentation, and, like all adaptive systems, it must evolve over time as the external environment and internal needs change.

Design the System for Speed

When combined with a willingness to fail—see the next organizing principle, below—organizing for speed may be the highest-impact step that companies can take to rejuvenate innovation.

For one thing, bringing new products to market quickly avoids giving competitors early looks or the opportunity to influence trial results (by, for example, cutting the price of an existing product in trial markets). For

another, time-consuming trials and test launches too often kill new products before they have a chance to find their market. Splashy launches, supported by big advertising buys, have muted impact in the age of social media and mobile commerce; conversely, it’s possible today to launch new products quickly by using social media and other inexpensive tools.

Reckitt Benckiser, a global consumer-products company that has significantly outperformed its peers in both revenue growth and total shareholder return (TSR) over the past 15 years, has built an organization and a culture that value idea generation, quick decision making, and, above all, speed. The company encourages ideas from anyone at any level in its organization, as well as from its suppliers and partners. It has systematized idea collection, evaluation, execution, and reward, with speed a top priority at each stage. It invests strongly in new products—one reason why, compared with its rivals, more of Reckitt’s revenue comes from products that are fewer than three years old. The company’s UK general manager puts it this way: “We rely on speed to create and define new sectors, which grow entire categories. We use our first-mover advantage to take share; and while our competitors are figuring out how to catch up, we’re moving on to new markets.”

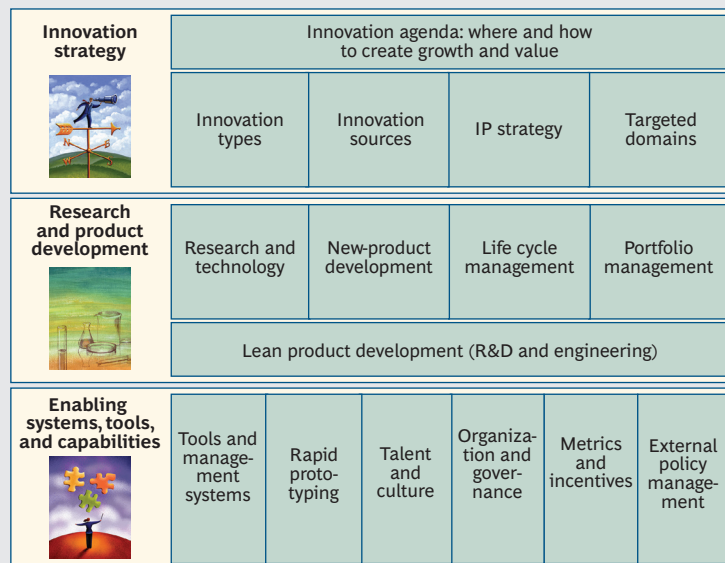
Learn by Doing: Fail Fast and Fail Cheap

Failure is as integral to innovation as new ideas. It’s axiomatic that not every idea is going to make it. Adidas readily admits, “There are no blueprints for innovation. Sometimes it takes trial and error. More often than not, we miss the mark.” Domino’s Pizza expanded its menu for the first time to include chicken in April 2014, supporting the change with an ad campaign that stated, “Failure is an option.”

Yet many companies draw out the development and testing process, making failures time consuming and expensive. These companies might learn a lesson from Wall Street: when a trade heads south, sell quickly and move on.

Failing fast and cheap is partly about making efficient use of scarce resources—by putting them where they have an impact—and partly about capturing lessons learned. Effective innovation systems are designed to limit the waste created by going too far down unproductive paths. The systems, and the executives overseeing them, also help product development and innovation teams learn to limit risk by cutting losses sooner than a standard innovation playbook might; these teams then make the lessons learned from the experiment available to subsequent projects and teams. Using an

World-Class Companies Treat Innovation as a System



Source: BCG analysis.

adaptive approach, good innovation systems institutionalize taking advantage of the experience curve.

Intuit, for example, employs an iterative process, Design for Delight (D4D), that uses “rapid experiments with customers” to narrow a broad range of options to the few that have significant appeal. The company is not afraid to jettison “failed” ideas along the way, having learned the lessons from them. The quick, iterative nature of the customer experiments keeps the process moving fast and limits costs. Intuit also sponsors periodic “incubation weeks,” in which teams are invited to design and build minimum viable products for testing within a week.

Reach for Big Ideas

Ninety percent of the most disruptive innovators in the 2014 BCG Global Innovators Survey said that developing “new to the world” products is important to their future success, compared with 63 percent of nondisruptive innovators. They also take a longer-term view, with 25 percent investing for a three- to five-year return and 21 percent investing with a time horizon of five years or more. Only 17 percent of the nondisruptive innovators invest with a time frame of five years or more.

Nonetheless, many companies still suffer from a cautious culture, misguided incentives, and fearful decision making and governance. As a result, they make incremental improvements to products rather than introducing a greater number of new and radical products. More companies need to add boldness to the value mix.

Leading innovators are increasingly looking to big data for big ideas. Almost 60 percent of strong innovators in our 2014 survey said that their companies mine big data for new-product ideas, compared with only 19 percent of weak innovators. BCG research into big-data leaders shows that these companies generate 12 percent more revenue than those that do not experiment with big data. They are also twice as likely to credit big data with making them more innovative (81 percent compared with 41 percent) than their peers.

Another technique enjoying an increasingly wide resurgence is the corporate incubator. Incubators more or less evaporated when the dot-com bubble burst, but BCG research indicates that they are making a comeback—with a twist. Rather than considering investments solely on the basis

of financial returns, the new generation of incubators concentrate their investments in ideas that can enhance the sponsoring company’s competitive advantage. The start-ups selected for incubation have significant interactions with their corporate sponsor beyond simply cash support, including access to R&D, supply chains, and key customers at both the corporate and business-unit levels.

Our analysis of the top 30 companies (as measured by market value) in each of six innovation-intensive industries (telecommunications, technology, media and publishing, consumer goods, automotive, and chemicals) found that in 2013 alone, 19 of the 180 companies had established incubators—or their close relatives, accelerators. The larger companies in the sample (as measured by market value) were more likely to have embraced the trend. More than one-third of the top 10 companies in the sample, 26 out of 60, had established incubators or accelerators, compared with less than one-quarter, 42 out of 180, of the sample as a whole. (See *Incubators, Accelerators, Venturing, and More: How Leading Companies Search for Their Next Big Thing*, BCG report, June 2014.)

Institutionalize IP

Innovation both depends on and generates intellectual property. And it’s not just a tech thing. Smart companies across all industries increasingly use IP as both an offensive and a defensive competitive weapon—and disruptive innovators take it even more seriously. IP winners take a strategic approach that embraces six broad practices. They *focus on value*, putting a price on the value generated by their innovations. They protect and further their *freedom to operate* by managing their own portfolios, with the aim of ensuring affordable access to the IP they need now and will need in the future. They keep their *eyes on the future*, tracking the moves of competitors and anticipating the direction of technological and innovation trends. They have *lean and focused organizations*. They view the IP function as a strategic partner of the business units, not as an administrative or staff unit. They put a *premium on speed*, particularly with respect to patent filings to protect their innovations. And they focus on *quality over quantity*. (See the sidebar “Six Habits of IP Winners” in *The Most Innovative Companies 2013: Lessons from Leaders*, BCG report, September 2013.)

Companies that manage their IP assets effectively are more successful than their competitors at winning approval for their applications, securing patents more than 60 percent of the time. They control a disproportionate share of

the IP within their industries, measured not necessarily by raw numbers of applications and claims but by breadth and depth of coverage.

WINNING ISN'T EVERYTHING, it's the only thing," goes the famous football adage. For companies whose lifeblood is new products and services, the same can be said of innovation. These companies organize themselves systemically to keep the lifeblood flowing, and they put themselves through regular checkups to make sure the system is working as it's supposed to. They think big, move fast, and are not afraid to fail. And when necessary, they don't hesitate to innovate their innovation systems to keep the lifeblood flowing.

Where does *your* company stand?

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UNLOCKING ACQUISITIVE GROWTH

LESSONS FROM SUCCESSFUL SERIAL ACQUIRERS



“More important than the will to win is the will to prepare.”

—Charlie Munger, Berkshire Hathaway

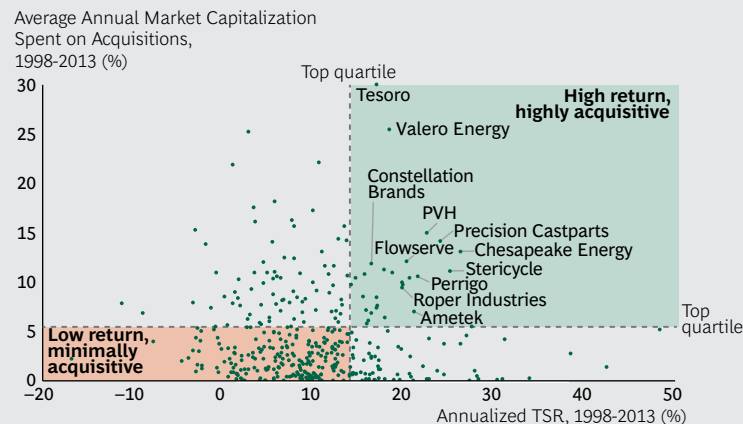
FOR ANY LARGE GLOBAL COMPANY, acquisitive growth is likely to be a key component of corporate growth strategy. Many business leaders, however, are frustrated by the difficulty of finding, buying, and integrating good businesses. In our work with clients, we often hear the following complaints:

- *“There are too few attractive targets.* We keep seeing the same old names and spending time reacting to deals that don’t make sense.”
- *“We can’t get the numbers to work.* The relevant targets are too expensive.”
- *“Our outcomes are inconsistent.* Even when we win, some deals end up destroying significant value.”

There is a set of companies, however, that routinely overcomes the challenges inherent to M&A-driven growth. Some are public companies, such as Perrigo, the world’s largest manufacturer of over-the-counter pharmaceutical products; clothing and design company PVH, the owner of the Calvin Klein and Tommy Hilfiger brands; and Precision Castparts, a manufacturer of complex components for the aerospace and power generation industries. Others are privately owned, such as the industrial conglomerate Koch Industries.

These companies are successful serial acquirers: they do many acquisitions (on average, spending more than 5 percent of their entity value per year), grow faster than their rivals (as much as three times as fast), and deliver attractive shareholder returns (nearly double the returns of their peers over a sustained 15-year period). (See the exhibit, “Successful Serial Acquirers Create More Value from Deals.”) What explains these companies’ ability to

Successful Serial Acquirers Create More Value from Deals



Sources: Capital IQ; annual reports; BCG analysis.

Note: This analysis includes all companies that were in the S&P 500 during the entire 15-year period and all acquisitions for which the acquisition price has been disclosed.

deliver successful acquisitive growth when so many other companies stumble?

To find out, BCG recently interviewed senior managers, investors, and sell-side analysts of these successful serial acquirers. As one might expect, each company's approach contains elements unique to the company or industry; similarly, all share a panoply of standard M&A best practices, such as in-depth due diligence, a strong network of external advisors, and detailed integration plans.

But the single factor that most often distinguishes these successful serial acquirers from the rest is their willingness to invest large amounts of leadership time, money, and organizational focus in support of their M&A strategy—in advance of any particular deal. For these serial acquirers, each completed transaction is often the result of years, or even decades, of consistent, patient, and methodical preparation.

More specifically, successful serial acquirers invest disproportionately in three key areas:

- *Building and Refining a Compelling Investment Thesis.* These acquirers craft a proprietary view of how they create value and use that view to guide their M&A activity.

- *Investing in an Enduring M&A Network and Culture.* Senior leadership is deeply engaged in the M&A process, and managers at all levels of the organization are expected to source and cultivate relationships with potential targets.
- *Defining Distinctive Principles for the M&A Process.* The most successful acquirers articulate a core set of carefully designed operating principles. These principles define how the M&A process and people will be managed for discipline without adding bureaucracy.

A Compelling Investment Thesis

An investment thesis is a clear view—grounded in the granular realities of a company's unique competitive situation, strengths, opportunities, and risks—of how the company will compete and create value over time. (See “The CEO as Investor,” BCG Perspective, April 2012.)

For any potential acquisition, an investment thesis helps answer the questions: “why us?” “why now?” and “how do we get there?” Typically, the organization's investment thesis is articulated explicitly, in a business case that quantifies key sources of expected value creation from each acquisition and that is periodically modified as part of a regular investment-thesis review. Ongoing engagement with the board to ensure alignment on the future M&A pipeline and performance evaluation of past deals is also best practice.

A good investment thesis should be specific enough to clarify where members of the organization should be looking for transactions and to help the company avoid “me too” or off-strategy transactions that are unlikely to add value or are a mismatch with the company's style of competition. A high degree of precision in the investment thesis empowers the organization to source transactions proactively, rather than just react to pitch books from bankers (which almost always involve a public auction process that drives down returns for acquirers).

Often, the key areas in which a company looks for deals have less to do with industry definitions (as reflected in traditional product or SIC codes) than with certain well-defined company characteristics or transaction types.

Koch Industries, for example, seeks quality businesses with volatile and uncertain earnings, high asset intensity, structural cost advantages, and

reasonable valuations. Once a target is acquired, Koch uses its distinctive capabilities and approach to risk to systematically improve performance and grow the business over a multidecade holding period. The clarity of its investment thesis and its disciplined approach to valuation allows Koch to acquire companies in different industries—such as pulp and paper company Georgia-Pacific and electronic-interconnector manufacturer Molex—confident they will grow faster and create more value as Koch subsidiaries than they would on their own.

Finally, by defining precisely the mechanisms through which the acquiring company will make the acquired business more valuable, an investment thesis gives the buyer confidence in future earnings power. This helps both to define the “walk away” valuation (the price above which a deal will no longer create value) and to identify those situations in which paying an above-average acquisition premium will still result in attractive retained value for the buyer.

An Enduring M&A Network and Culture

Successful serial acquirers also invest continuously in developing internal capabilities, building their M&A network, and cultivating potential sellers—all on a scale that transcends any particular transaction.

This investment starts at the top. The CEOs, presidents, and general managers of businesses at successful serial acquirers are active “hunters” who are expected to spend a significant portion of their time (as much as 40 percent) exploring potential business combinations. These executive leaders often personally oversee the M&A process and regularly mobilize the organization (not only the business development team, but also business unit presidents and line managers) to identify and cultivate potential targets. In the process, they make deal sourcing and the patient cultivation of targets part of the culture of the entire organization.

For example, one serial acquirer we have worked with targets small R&D-intensive start-ups in which decadelong innovation cycles are the norm. As part of its target-cultivation process, the company regularly gives potential targets open access to its innovation centers so that target executives can build close relationships with the serial acquirer’s scientists—relationships that, over time, will help facilitate the deal. Other serial acquirers make a special effort to foster connections with family-owned companies, nurturing their relationships over the long term and positioning themselves for a generational transition that leads to a decision to sell.

Distinctive Principles for the M&A Process

Most executives today know that effective M&A requires a structured end-to-end process from deal sourcing through integration. What distinguishes successful serial acquirers, however, is less the existence of such a process (“the letter of the law”) than the way that process is endowed with rigor and discipline by a set of underlying principles and policies (“the spirit of the law”).

The best acquirers recognize that no two deals are exactly alike. Therefore, rather than develop detailed (and often highly bureaucratic) “cookbooks,” they run their M&A process according to a short list of distinctive principles. These principles are designed to take time and cost out of the M&A process and to ensure that the maximal value is delivered from each acquisition.

The multibusiness conglomerate Danaher is a prime exemplar of this approach; the company has a codified “Danaher Business System” for generating value from acquisitions that it has been refining for more than 30 years.

Such principles serve to focus an organization’s M&A teams on the issues that matter most at each stage of the transaction process. For example, during due diligence, agree on the short list of key commercial deal breakers early on and focus the lion’s share of effort on resolving them. During bidding, establish a firm “walk away” value that ensures the acquirer does not overpay for the deal. During integration, allocate the majority of team resources to those activities (whether innovation, procurement, or pricing, for example) in which most of the value is expected to accrue.

Proactive Investment in Acquisitive Growth

Any company targeting more growth from acquisitions can learn from the successful serial acquirers who have invested in the three practices discussed above. To do so, however, requires a degree of organizational investment that is significantly larger than most companies make. Given the high stakes and many risks of M&A, however, it is an investment that will pay for itself many times over.

To determine whether you have sufficiently invested in your M&A organization and strategy, ask yourself the following questions:

- “Do we have a clear and distinctive investment thesis that describes the role of M&A in our growth strategy and defines the types of deals for which we are uniquely positioned to add value?”
- “Do our senior executives invest significant amounts of their time refining our investment thesis, hunting for potential deals, and communicating to the organization the importance of M&A in our strategy?”
- “Do we have a career path in place that attracts and rewards executives and functional experts who want to drive acquisitive growth?”
- “Do we have a clear set of principles that define our M&A priorities and the best practices for executing against those priorities?”

For busy senior executives, it is always tempting to wait for the right deal to be presented to them. But for leaders who aspire to consistently and sustainably drive acquisitive growth and are prepared to spend billions to do so, waiting for the right deal to show up isn’t good enough. The time to invest for acquisitive growth is before any particular deal. By the time the pitch book hits your desk, it’s probably too late.

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DRIVING GROWTH WITH BUSINESS MODEL INNOVATION



TODAY, WITH INCREASED MARKETPLACE VOLATILITY and the rising diversity of attractive customer segments, business models age faster than ever before—making business model innovation an important strategy for driving value-creating growth. It can be deployed to both defend and disrupt: a powerful response to declining competitiveness and a decisive means to seize new opportunities.

But executing business model innovation—the process of changing both the value that is promised to customers and how it is delivered to tap into new profit sources—is certainly more complex than traditional product or service innovation. It’s hardly surprising then that although 94 percent of the 1,500 senior executives surveyed in the 2014 installment of The Boston Consulting Group’s annual research on the most innovative companies reported that their companies had engaged in business model innovation to some degree, only 27 percent said their organizations were actively pursuing it. This is despite the fact that the complexity of the large-scale change effort involved makes it difficult for rivals to imitate, which affords successful innovators with both a longer head start and a more durable competitive advantage.

Companies hoping to drive growth through business model innovation face a number of critical questions: How broad should the scope of the effort be? What is the appropriate level of risk to take? Is it a onetime exercise, or does it call for an ongoing capability? How can a company discern which new business model is the most attractive? And what differentiates those companies able to transform their business models from those that might run a pilot but fail to fundamentally change the company’s trajectory?

To answer those questions, it is important to realize that not all efforts toward business model innovation are alike. Understanding four distinct

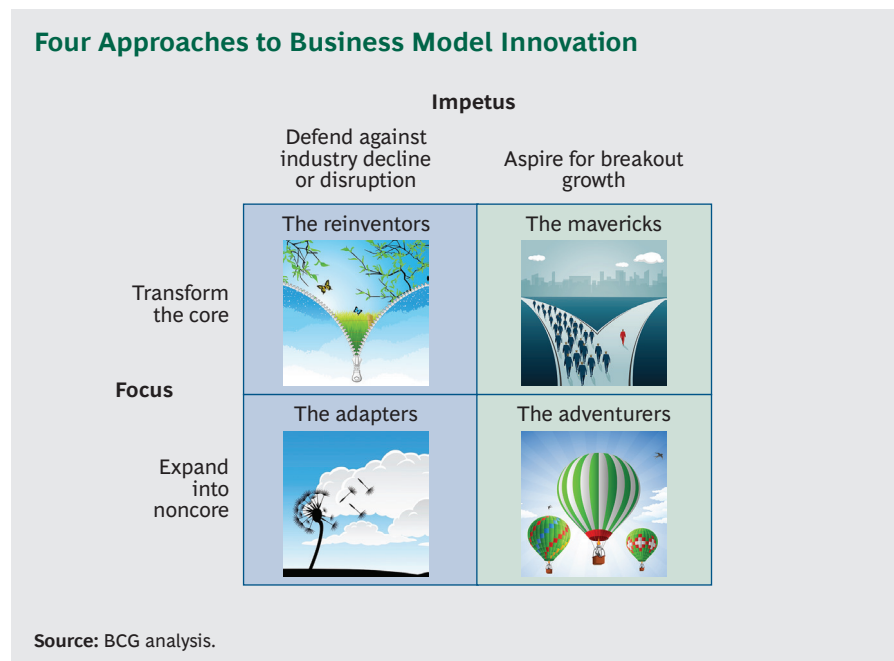
approaches can help executives make effective choices in designing the path to growth.

Four Approaches to Business Model Innovation

To understand which business model innovation approach fits best for any individual company, it is critical to understand both impetus and focus. **Impetus:** Is the company defending against an external threat, such as commoditization, new regulation, or an economic downturn—or is it proactively disrupting the status quo? **Focus:** What is the most attractive area of opportunity—does it reside in the core business or in adjacent businesses or markets?

These two factors define a matrix of four approaches to business model innovation. (See the exhibit below.) Within each of the four approaches, companies will employ different tactics to successfully rebuild their models and make different choices.

- *The reinventor approach* is deployed in light of a fundamental industry challenge, such as commoditization or new regulation, in which a business model is deteriorating slowly and growth prospects are uncertain. In



this situation, the company must reinvent its customer-value proposition and realign its operations to profitably deliver on the new superior offering.

- *The adapter approach* is used when the current core business, even if reinvented, is unlikely to combat fundamental disruption. Adapters explore adjacent businesses or markets, in some cases exiting their core business entirely. Adapters must build an innovation engine to persistently drive experimentation to find a successful “new core” space with the right business model.
- *The maverick approach* deploys business model innovation to scale up a potentially more successful core business. Mavericks—which can be either startups or insurgent established companies—employ their core advantage to revolutionize their industry and set new standards. This requires an ability to continually evolve the competitive edge or advantage of the business to drive growth.
- *The adventurer approach* aggressively expands the footprint of a business by exploring or venturing into new or adjacent territories. This approach requires an understanding of the company’s competitive advantage and placing careful bets on novel applications of that advantage in order to succeed in new markets.

Business Model Innovation in Action

There is no simple formula for successfully reinventing a company’s business model. Instead, companies within each of these four categories often deploy different tactics. These tactics touch on everything from how to recognize the key opportunity to how to implement the new model and harness the necessary resources. We delve into the stories of four companies, cases that highlight how a different set of moves are required to succeed under each approach.

Reinventor: Schlumberger confronts the changing market for oil and gas. Reinventors respond to intense pressure by rethinking their existing operation. For these companies, there are two key steps to remaking the business model:

- *Redefine value for customers.* Reinventors do not need to be radical. Rather, they capitalize on their expertise to find ways to reinvent their custom-

er-value proposition to unlock new advantages, such as customer loyalty. Moving from providing commodity products to embedding products in more value-added services is one common pathway.

- *Cannibalize proactively.* Though the change may not be revolutionary, efforts must be broad-based and fully committed—including a willingness to reinvent every function in the company in order to deliver on a more attractive value proposition to the customer profitably. Reinventors do not deny the decline of the core business. Instead, they figure out how to control and benefit from it—rather than letting rivals set the terms and the pace.

A fundamental shift is occurring in the oil industry: reserves in easy-to-exploit fields are being depleted. And newly discovered reserves frequently sit in deep water or remote locations, requiring complex, costly, and often high-risk projects in order to gain access to them. At the same time, international oil companies are trying to extract as much as possible from existing oil fields, efforts that also come with high costs and significant technical obstacles. For oil services company Schlumberger, the disruption facing its core customers threatened the future growth of its traditional drilling and production-services operation.

There was a major opportunity, however, for Schlumberger to expand the role it played for national oil companies, entities that controlled significant untapped reserves. The company responded by increasing its focus on a different business model within its core, a unit called integrated project management. By collaborating across business lines and contracting for third-party services when needed, integrated project management offers customers a turnkey solution—rather than individual products or services—for increasingly large and complicated projects. And under this model, Schlumberger often assumes some of its clients' exposure by creating risk-sharing arrangements.

The new model appeals to national oil companies in particular because these companies often lack the expertise and technology to manage large oil projects on their own. In those cases, however, Schlumberger's integrated-project-management unit is infringing on the role that major oil companies—also Schlumberger customers—have typically played for national oil companies. The upshot: As Schlumberger's business expands, it risks alienating a critical customer base within its traditional services business.

Despite that trade-off, Schlumberger pushed aggressively into integrated project management. By 2013, the company was managing 55 projects in more than 40 different countries with revenues from integrated project management growing at an average annual rate of 13 percent from 2002 through the end of 2011.

Adapter: Aon Hewitt responds to health care reform. Adapters focus on finding a way to exploit their core business expertise to break into new markets and businesses. In order to succeed, they must address two issues:

- *Find untapped value in current assets and capabilities.* Expanding into new markets inevitably requires operating in unknown areas and experimenting. Adapters minimize additional risk by understanding their strengths and moving decisively to apply them in new—and growing—areas.
- *Make adversity an advantage.* The most attractive opportunities often exist where market disruption or new regulations expose new customer needs. Adapters tap into these.

Aon Hewitt, a global talent, retirement, and health-solutions company, moved on both fronts as it looked for ways to address the transformative changes in the U.S. health-care industry. With the rising cost of providing health care and the declining health of U.S. workers, employers were struggling to offer high-quality, affordable health care for employees and their families. They were also paying into a system in which they had no control or influence over the supply and price of services.

Recognizing that new solutions were needed, Aon Hewitt moved to harness its benefits expertise and trusted reputation to build a business in an adjacent space—private health exchanges. And although the company had been working on a private-exchange model for several years, the Patient Protection and Affordable Care Act accelerated its creation by prompting an increasing number of employers to rethink their role in employee health care. In late 2011, the company was the first to launch a multicarrier, multi-employer private exchange to serve large employers. The aim was to establish private exchanges as an alternative to public exchanges, providing a means for large employers to offer more choice, cap health care costs, and reduce the burden on HR departments. Aon Hewitt CEO Gregory Case went on record to say that the company would spend \$100 million over the course of a couple years to build that business.

Aon Hewitt is at the forefront of a potentially significant shift. In 2014, the company conducted a survey of more than 1,200 large employers and found that a full 33 percent expected the private-exchange model to be the preferable approach for offering employee health benefits in three to five years—up from just 5 percent at the time of the survey. And in the fall 2013 benefits-enrollment season, more than 600,000 employees and their family members signed up for health benefits through the Aon Active Health Exchange. Significant uncertainty remains in this segment, including how private exchanges will evolve and just how much share they will garner over the long term. But Aon Hewitt has hedged its position should these mechanisms become a dominant force in the market.

Maverick: Red Hat upends the software business. Mavericks zero in on what established companies often overlook. They commonly leverage two key approaches:

- *Target the sleeping giant.* Mavericks exploit the complacencies of incumbents—a goal that calls for commitment and grit. Such complacency is often evident in low levels of customer satisfaction or the extent to which customer needs go unmet.
- *Minimize the barriers that stand between you and the customer.* While mavericks may have a superior offering or technology, the key to turning that advantage into value is often to connect with customers in a new way. This new approach must reduce the risk, inconvenience, or complexity of adopting the maverick's product or service.

In the case of Red Hat, the sleeping giant was Microsoft. By the late 1990s, Microsoft's Windows NT was the leading operating system, installed on well over a third of servers shipped each year. NT was stable and reliable, and it worked on a wide range of server hardware—but it was expensive and difficult to customize.

Red Hat sold a version of Linux—a powerful Unix-like open-source operating system developed by a self-organizing global community of programmers. Red Hat's Linux was being used at nearly all of the *Fortune* 500 companies—but not on core enterprise applications such as major databases and transaction processing. The software was reliable, efficient, and significantly less expensive than NT, but few of the major enterprise applications offered by companies such as SAP, Oracle, and IBM were certified to run on it. Linux was a community creation, so the code changed frequently and

application providers couldn't certify their programs to work on a moving target.

Red Hat addressed Linux's shortcomings among large corporate users through business model innovation. It created specific “releases” of the software. Those releases, purchased through a subscription, would remain constant for a predictable period of time so that enterprise users could depend on its stability—and customers would be able to test new versions extensively before deploying them. Linux's new stability cleared the way for Red Hat to forge partnerships with IBM, Oracle, and SAP, among others. Those companies not only certified their applications to run on Red Hat's releases but in some cases also sold Red Hat Linux along with their own products.

Supported by this new business model, Red Hat introduced Enterprise Linux in 2002. By 2003, eight of the top ten investment banks used Red Hat Linux for mission-critical applications. And by the end of 2011, Red Hat was the first open-source software company to reach \$1 billion in annual sales.

Adventurer: Virgin's new model powers expansion. For adventurers, a primary challenge is managing the trade-off between innovating and protecting the core business. This implies two imperatives:

- *Stabilize the core.* Adventurers must be vigilant about ensuring the company preserves a solid financial foundation and protects its resources. Many of these companies use outsourcing or partnering as a way to minimize capital investments and risk.
- *Establish a permanent, dedicated innovation team to place bets in new spaces.* Innovation for these companies is not a onetime effort. They establish a pipeline to generate new initiatives with well-tested managers at the helm of that effort. In this way, innovation efforts are managed separately from the core business.

Richard Branson is a self-described adventurer, a title that also fits the company he founded. Branson's Virgin Group has a knack for identifying markets in which leaders have grown complacent and disrupting those markets with a business model that puts a laser focus on customer needs.

Virgin has been able to explore new territory—from financial services to telecommunications to space travel—in great measure because it preserves

the strong financial base of its core travel, entertainment, and lifestyle businesses. Branson encourages risk taking while still protecting the company against the downside of those initiatives. This discipline is reflected in the clear financial criteria set for new investments, including a projected internal rate of return of greater than 35 percent for startups and 25 percent for projects requesting follow-on funding.

At the same time, Branson does not leave the identification of opportunities to chance. He leads a senior investment team, comprising highly successful Virgin executives with extensive experience outside the company. This team is tasked with spotting and selecting new investments.

EXAMINING THE TRACK RECORD of successful business model innovators reveals that such innovation can be a solution to major challenges and a tool to accelerate growth. To begin to assess whether your best opportunities reside within or adjacent to your core—and whether you will gain more from playing defense in existing markets or going on the offense in new ones—ask yourself the following questions:

- *Look beyond your current product or offering.* What is the broader problem you are solving for your customers? How would someone else solve it differently? Can you reinvent the value proposition to your current customers?
- *Stare oblivion in the face.* Is your business in a slow but definite long-term decline or is there a big event that could render your business irrelevant in the not-so-distant future? Even if you best competitors in this situation, would you still fall short of your growth aspirations? What decisive business-model moves might represent an antidote?
- *Broaden the ecosystem.* Are there “unusual suspects” for partnerships? Could this be a path for entry into adjacent spaces?
- *Take a different perspective.* How might different mind-sets point you toward different actions? For example, would a private-equity firm get excited about rapidly scaling your business in different or adjacent segments?

Thinking through the options that these questions reveal can help a company focus on the highest-value moves and select the right approach to evolve

ing or remaking the business model. And, in turn, that selected approach and specific opportunity will help inform the breadth, risk profile, and duration of the transformation plan—and whether the company needs to pursue business model innovation on a periodic or a perpetual basis.

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ORGANIZING FOR GROWTH



GROWTH INITIATIVES FAIL FOR MANY REASONS. The strategy may be flawed, or execution may fall short. Most often, however, initiatives fail because of people and organizational shortcomings. Companies neglect to rally their leadership behind the initiative. They don't put the right people and capabilities in place. Or they don't adjust structure and culture to the new initiatives.

Archie Norman, the UK business executive who has turned around several companies, once said, "Behind all financial failures is organizational failure." The same is true of growth initiatives.

Successful growth initiatives revolve around five organizational and people practices. They cannot rescue a failed strategy or poor execution, but without them the best-laid growth plan is unlikely to take root and bear fruit.

Leadership: Growth Starts Here

Growth often challenges an organization's existing business models and resource allocation. Unless senior leaders visibly and actively support a growth initiative, the inertial forces of larger legacy businesses can smother it. These leaders will likely have to spend even more time and effort on a growth initiative than on other types of change that do not disrupt the internal balance of power.

Once a growth strategy has been set, one of the primary jobs of the CEO is to ensure that the entire senior leadership team supports the initiative and is committed to its long-term success. This is difficult work. Some senior executives may feel threatened. Others may not possess the same sense of urgency as the CEO. The growth initiative will almost certainly fail if the CEO cannot bring these people around.

The composition of the senior leadership team needs to mirror the company's new focus. If all the top leaders come from legacy parts of the business, employees will perceive that the new growth initiative is just a passing fancy. Likewise, meetings of the senior leadership team and the board of directors should be disproportionately devoted to growth. If the top is carrying on with business as usual, the rest of the organization will conclude that they can, too.

Leaders need to talk about the new growth initiative clearly, continually, and consistently. They should celebrate the initiative's successes and make heroes of its leaders while honestly acknowledging the challenges in front of them.

Talk and celebration go only so far, however. Ultimately, leaders will be judged on what they do, how effectively they remove internal barriers to growth, and whom they promote to lead their growth initiatives.

Gracia Martore, CEO of Gannett Company, and her leadership team followed this script closely during the U.S. media company's multiyear growth initiative. In addition to growing organically, the company reshaped its business portfolio with a series of acquisitions and divestitures. This strategic deal making culminated in an August 2014 announcement that Gannett would split in two by peeling away its publishing business, including *USA Today*, from its faster-growing digital and broadcasting businesses. These moves have helped more than double market capitalization in the two and a half years since the announcement of the growth strategy in February 2012.

As the leaders of a decentralized company, the members of Martore's senior team understood that they needed to be fully behind the initiative. Otherwise, they could not expect the 100 business units that reported to them to embrace Gannett's new direction.

The team oversaw task forces and other activities that focused on building the case for change, growth, and renewal. Two newly created positions—a chief digital officer and a chief marketing officer—and several senior outside hires also strengthened the leadership capabilities required to promote the growth strategy.

Capabilities and Talent: The Fuel That Ignites Growth

To generate growth, companies will almost always need new organizational capabilities and individual skills. They may need technical or functional

skills, such as digital or big-data capabilities. But they may also require new types of leaders—those with experience in emerging markets, for example, if that is the source of the opportunity, or executives who are more adaptive, agile, and entrepreneurial than those running the core business. Likewise, a product company moving into services may need a sales executive who better understands the dynamics of service businesses.

Finally, growth agendas almost always require cross-functional collaboration and fundamentally different ways of working. While cost cutting can frequently be achieved within functions and without new capabilities, that is almost never true of growth.

A European television studio recognized the importance of new capabilities for the growth strategy it had recently developed. The strategy, which focused on better exploiting the creative output of the company's production business, required three types of new capabilities and closer collaboration between creative and business executives. First, the company needed stronger commercial acumen in the studios in order to uncover and exploit new revenue sources. Second, it needed people experienced in developing content that would appeal to overseas markets—a principal source of future growth. Third, it needed leaders comfortable managing both the creative and business sides of production. Historically, leaders were promoted on the basis of creative judgment rather than business skills.

The growth strategy also required new organization structures and a shift in culture; but without the new capabilities, the strategy would have faltered. Instead, it has helped the studio boost revenues, employee engagement, and shareholder return.

Organization Design: Nurturing the New Business

A new growth strategy presents important organizational choices, although many companies often fail to pay sufficient attention to them. The most fundamental choice is whether the initiative fits within an existing business, belongs on its own, or should be combined with other new ventures. These are never easy decisions. The answers are not formulaic and depend on context.

However, there are some basic principles. When the growth initiative is either distinct from or disruptive to the established core, separation makes sense. This unit can then attack the opportunity with its own talent, incentives, and cadence. When the growth initiative is adjacent—and either

supportive or nonthreatening—to the core, it likely belongs within the core business organization and operating model.

These two models were on display when two companies, an airline and a retailer, both built successful e-commerce businesses with very different strategies and organizational approaches.

The airline, unaccustomed to disruptive change or integrating new capabilities, created a stand-alone e-commerce unit that could not be overwhelmed by the main business. The retailer, on the other hand, was already accustomed to selling through more than one channel and store format, and wanted to give customers seamless service. It also had a strong record of change management and business model evolution. It opted to embed the new e-commerce strategy in the core business. Each decision was sound, given the organizational context, and ultimately successful.

Regardless of where the new growth initiative is housed, all companies will need to ensure that they have processes to promote cooperation across existing business and functional units. Forums, councils, and cross-functional teams are effective mechanisms for fostering this collaboration. In meetings of these groups, all parts of the organization come together to discuss progress, reset expectations, and make course corrections. These gatherings should also provide an opportunity for teams to celebrate successes, build engagement, and find a common purpose. And, of course, they also are the place to air disagreements and make trade-offs.

These forums are too often seen as contests with winners and losers, rather than platforms for effective team building. Executives must ensure that the right people—with the right information and the right motivation—are collaborating effectively to get work done. Well-designed mechanisms can mean the difference between the success and failure of a growth initiative.

When Gas Natural agreed to buy a controlling stake in competitor Unión Fenosa in 2008, the Spanish utility put in place mechanisms to define accountabilities and ensure collaboration. Gas Natural Fenosa, the new company, created a lean but effective corporate center by eliminating redundant roles and clarifying how the corporate functions and business units would work together. The corporate development function, for example, was made responsible for establishing growth targets and ensuring that the company stayed focused on growth.

This emphasis on collaboration and roles has paid dividends for Gas Natural Fenosa. From 2009 through 2013, its revenues grew by 14 percent annually.

Culture: Creating the New Normal

Culture—“the way things get done around here”—can either accelerate or frustrate growth initiatives. There is often a gap between a company’s current culture and its target culture.

Leaders play a large role in establishing culture, reinforcing behavior, and bringing in and promoting the right people. Policies that define performance, compensation, promotions, and penalties also affect culture. If companies are unwilling to rethink their traditional incentive structures, for example, they will struggle to attract the desired kinds of people or to encourage more entrepreneurial behavior. But they also need to mesh new approaches with existing practices. Organization design—especially the assignment of decision rights and the establishment of mechanisms to encourage collaboration—also influences culture.

Behavior and culture are often afterthoughts, but they shouldn’t be. Companies can develop processes to ensure that they achieve their target culture, which will make it easier to achieve their financial targets.

As part of a large transformation, a global insurer recognized that its culture was a barrier to growth. Its leaders did not collaborate well, and accountability and trust were low throughout the organization. The insurer established new incentives for leaders that focused on promoting more disciplined, strategic, and collaborative behavior. It also created “role charters”—documents written by employees and their supervisors that describe roles as they should be, as well as the collaboration required among them—for more than 1,000 employees. The new behavioral expectations were put in place during a delayering in which each layer of supervisors designed the layers and roles—and assigned decision rights—below them. This process helped build employee commitment, break down barriers, and clarify roles and responsibilities. The insurer’s stock price rose by 50 percent in the year after the announcement of the transformation.

Change Management: Pulling It All Together

Change management capabilities are what allow companies to knit together the threads of a growth initiative. In our experience, change management is

most effective when senior leaders agree on the goals and means of change and then transmit a consistent message to employees layer by layer throughout the organization. As part of monitoring change, senior executives should be able to receive feedback from deep within the organization, where the fate of change resides, in order to track progress and make adjustments. We call this process cascading change.

Organizations also need to rely on both hard and soft strategies to deliver change. On the hard side, they define accountabilities and metrics for individuals and give them the tools and authority to succeed at implementing them. They track progress against important milestones, know when initiatives are at risk of falling behind schedule, and take corrective action. But they also communicate and engage with key stakeholders to maintain their confidence and commitment during turbulent times.

This rigorous planning and implementation will increase the odds of success for a growth strategy.

ORGANIZING FOR GROWTH is tough work. Leaders first should recognize that a growth strategy without consideration of organizational and people issues is merely a good idea. Then they need to lay the organizational foundation so that growth has a chance to flourish.

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