CHAPTER ONE

WHAT EVERY CEO WANTS

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'Organic growth is always stronger'
– Sir Martin Sorrell, Chief Executive, WPP Group[3]

Every CEO wants **sustained, profitable, organic growth**. Even firms that grow mainly by acquisition – with its high failure rate – usually need to show that they can increase value through top-line growth of the combined business as well as through cost-cutting. Organic growth therefore lies at the heart of long-term shareholder value creation for almost all businesses.

We all know of companies like Procter & Gamble, Apple, Canon, IBM, Infosys, BestBuy, Oticon and Zara that seem to achieve this kind of profitable organic growth year after year. They go from strength to strength, from success to success. How do they do it?

Each has a different strategy and business model, but ultimately, they all succeed because they do a few obvious, fundamental things well, and they do them over and over again. Firms that achieve sustained, profitable organic growth have an ***open organization*** at their core. They exploit the critical advantages this brings to achieve four key imperatives:

- Offer and communicate a clear, relevant ***customer promise***.
- Build ***customer trust*** and brand equity by reliably delivering that promise

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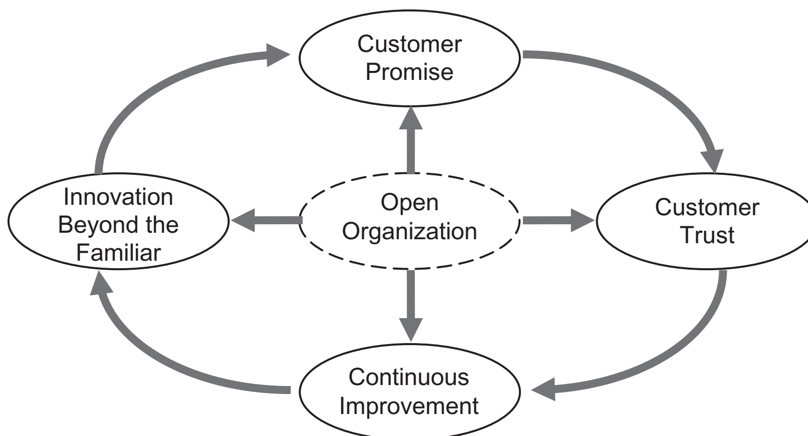
- Drive the market by ***continuously improving*** the promise, while still reliably delivering it
- Get further ahead by occasionally ***innovating beyond the familiar***

Although these ideas are familiar to everyone, putting them into practice is extremely difficult, which is why so few firms manage to deliver lasting organic profit growth. To hit the sweet spot, you need to get all of this right and in balance, as illustrated in the framework for this book (Figure 1.1).

Applying this framework requires firms to overcome a number of challenges. They must be more adept than their competitors at keeping in touch with customers' needs – much easier to say than to do. They must overcome the tensions between the pressure for short-term profits (especially through cost-cutting) and the need to build long-term customer and shareholder value. They must tackle organizational arrogance, complacency, denial, boredom, and the tendency to get distracted by what's new and exciting instead of what's important. Worst of all – especially with today's higher unemployment – they must reduce the corrosive, unacknowledged

Figure 1.1: The Organic Growth Framework



influence of fear, or at least deference, within the organization which prevents the open communication required to enable customer-focused improvement and innovation.

To introduce the issues, we first look at the twists and turns that have characterized the global market for mobile phone handsets since it came of age in the 1990s. There are many lessons to be drawn from the contrasting approaches and performance of Motorola and Nokia up to the launch of the Apple iPhone in 1997. Since then, the further lesson is how Nokia's winning formula has, so far, fallen short in the new market conditions created by Apple and now Google. This case shows how achieving organic growth is a never-ending challenge. No-one knows which firm will enjoy most success over the coming years, but the winners will be those that successfully drive the market through relentless customer focus combined with innovation beyond the familiar.

Global Mobile Phone Handsets: How Nokia Toppled Motorola only to Lose its Way

In April 1994, *Fortune* quoted a vice president of research at consulting firm AT Kearney as saying, *'Motorola is the best-managed company in the world. Nobody else is even close'*. *Fortune* described Motorola as a leader in innovation, total quality management (TQM), business process engineering, training, teamwork, and empowerment, and praised its '*… candid internal debate that remains rare in corporate America*'. In a shaky financial market, Motorola's stock was trading at an all-time high, driven by record sales and profits.[4]

Motorola's flagship business was its market-leading cell phone division, with a global market share in 1994 of 45%, more than twice the 20% share of its closest competitor, Finland's Nokia. But by 2000, all this had changed. Nokia was the clear market leader with a global share of 31%, while Motorola's had collapsed to just

15%.[5] Since then, Motorola's problem-ridden handset business has suffered numerous losses, redundancies, new leaders, and strategy re-launches.[6] There was a false dawn in 2004–6, driven by the success of the attractive RAZR phone, but by Q2 2010 Motorola's market share had fallen to an all-time low of 2.8%, well behind Samsung's 20.1%, LG's 9%, and RIM and Sony Ericsson's 3.4% each. Nokia, despite its poor performance in the high-growth smart phone segment, remained clear market leader with a 34.2% global market share.[7]

How did a market leader described as the *'best-managed company in the world'* stumble so badly, not just once, but again and again, while an obscure Finnish company left it for dust? While Nokia now faces serious challenges, which we'll discuss, it achieved market leadership by being *consistently* better managed than Motorola for over 15 years.

Contrasting Growth Strategies

In the late 1980s, Nokia was a highly-diversified manufacturing company known more for its rubber boots than its fledgling telecom network and handsets business.[8] In May 1992, it decided to focus primarily on capturing the growth potential of consumer mobile telephones. In 1996 CEO, Jorma Olilla, wrote to shareholders:

> 'Focus on the telecommunications industry means several things to us. First, it means the need to continue to enhance the existing competence base of the company. Second, it means a necessity to watch constantly for new opportunities in areas related to our main operations. Third, it means a firm commitment to achieve operational excellence within the company through improved business processes. … Thanks to our single-minded telecommunications orientation, we can now meet customer needs, technological as well as marketing challenges with the full strength of our organization.'[9]

In sharp contrast, by the early 1990s, Motorola was designing, manufacturing, and distributing a huge range of electronic products: semiconductors, cell phones and cellular infrastructure, computers, two-way radio products and systems, pagers, wireless and wire line data communications systems and services, satellite communication systems, and electronic control systems.

Motorola had a complex organization in which each business had wide autonomy, all under a general belief that computing and communications were converging and creating exciting but unpredictable opportunities and, presumably, that Motorola should aim to be in touch with as many of the relevant technologies and trends as possible: in 1995, it generated over 1000 patents. It became more complex and diversified as it grew through major investments (for example Iridium[10], a $5bn ultra high-tech system of privately owned satellites) and acquisitions (the $17bn acquisition of General Instrument, the USA's largest producer of cable TV set top boxes).

The advantage of Nokia's greater focus becomes clearer when we examine the companies' contrasting approaches to execution. For nearly 20 years, Nokia addressed *all* the requirements of our organic growth framework with greater consistency than most of its competitors, especially Motorola.

'Offer and communicate a clear, relevant customer promise'

In 1991, Nokia was among the first firms to see that digital technology would transform the mobile phone market from a limited application for a privileged few into a huge and fast-growing mass market. To succeed, it would need to make the Nokia brand a household name. It hired Anssi Vanjoki, a young 3M marketer, to lead its brand strategy. Anssi argued that the best companies thought about the brand in every aspect of the value chain – product design, production, distribution, and service – as well as advertising and promotion. Nokia therefore adopted a holistic

brand approach covering everything which directly or indirectly impacted its customers (mobile operators) and consumers, including internal functions such as HR and finance.

Nokia, initially unknown among consumers outside Finland, spent almost $1 billion on brand communications through the 1990s. It eschewed promoting technical features and stressed emotional benefits such as inspired technology, ease of use, and durability. Since 1992, it has used the English-language slogan, *'Connecting people'* globally.[11] With a discipline sadly lacking in many global consumer businesses, the look and feel of Nokia products was the same everywhere. In developing markets, Nokia's regional leaders had wide autonomy, but the blue logo, the ring tone, and the *'Connecting people'* tagline were mandatory. Amazingly, by 2000, Nokia was the world's fifth most valuable brand, according to Interbrand.[12]

Motorola, too, had been primarily a business-to-business (B2B) brand in the early 1990s. Once it started mass producing cell phones, its consumer brand awareness grew quickly due to its wide distribution and exposure. However, it was slow to recognise the need for a clear, consistent, consumer-relevant brand promise. This lack of clarity and consistency is reflected in its numerous short-lived brand slogans:

- *'What you never thought possible' [1996–2000]*
- *'Intelligence Everywhere' [2000–2004]*
- *'Seamless Mobility' [2004]*
- *'Mobile Me' [2005]*
- *'Hello Moto' [2006–2008]*
- *'We Generation' [2008]*

'Build customer trust and brand equity by reliably delivering on that promise'

Nokia worked hard to deliver on its brand promise. In fact promise-keeping – 'customer commitment' – to trade customers and con-

sumers has been an explicit part of its strategy since 1992. Motorola never quite grasped the critical importance of reliably delivering the customer promise. In 1995, Ameritech – a key customer – told Motorola it would need digital handsets in one year. Two years later Ameritech was still waiting and reluctantly went elsewhere. At the consumer level, Motorola's beautifully designed RAZR phone was a big hit in 2004–06. But this success was not maintained because, although consumers loved the design, they found the user interface slow and difficult. Ease of use is crucial in this market – the RAZR failed to deliver it.

In case this sounds easy, Nokia too had challenges. When booming global sales growth unexpectedly declined in late 1995, it experienced a rapid inventory build up. The ensuing alarm was such that Nokia saw its share price halve between September 1995 and February 1996.[13] Recognizing that *'The mobile phone business amounts to a large-scale logistical exercise'*,[14] it reorganized its supply chain and averted a lasting crisis. By the end of 1996, Nokia had regained its strong number two global position and was already the market leader in the fast-growing digital handset category.

Motorola, which 20 years ago had a strong, well-established brand, failed to build on its head start: it didn't focus sufficiently on promising and consistently delivering a complete customer-relevant offer – product, delivery, and service. Nokia's subsequent success, in contrast, was based on building a well-known brand trusted by both mobile operators and consumers.

'Drive the market by continuously improving on that promise, while still reliably delivering it'

Like most companies, both Motorola and Nokia were heavily committed to innovation as a core source of competitive advantage. But their approaches could hardly be more different.

Nokia was the first supplier to sell phones that work on every major cellular standard and, as already discussed, the first to recognize the importance of supply chain management. It was also

the first to target the whole of the global 'income pyramid', aiming to reach the four billion people still unconnected as well as the minority who were already connected. Of course, Nokia has also been the first to introduce many product improvements, but these have usually been incremental, such as the first mobile handset with an integrated FM radio, games and a calendar. Despite Nokia's brave decision to focus solely on telecommunications, *breakthrough* product innovation is not part of its DNA.

In sharp contrast, Motorola was a serial breakthrough technology player. It developed the world's first:

- Commercial cell phone (1983)
- Working prototype of a GSM cellular system and phones (1991)
- Two-way pager (1995)
- GPRS cellular system (2000)
- 3G nationwide network (Japan) (2002)[15]

To Motorola, innovation mainly meant being the first to introduce a heroic, blockbuster, new product. To Nokia, the main emphasis was improving the delivery of the promise through a series of incremental products and process innovations. This difference in emphasis was wryly noted by Tom Meredith, Motorola's embattled CFO, in 2007:

> 'Motorola's history is anything but boring, littered with iconic phones from the StarTec to the recent hit with the RAZR. But you'd be hard pressed to name an iconic product from market leader Nokia.'[16]

As Jack Johnson [name disguised], a former Motorola executive told us, *'Nokia started with consumer insights. It observed consumers and learned anthropologically and sociologically about how people live, then tried to humbly serve them up with solu-*

tions. Motorola's approach was: let's see what the promise of technology can unleash'.

'Get further ahead by occasionally innovating beyond the familiar'

Of the five elements in the framework, this is the one where Nokia is weakest, although even here, its track record may be stronger than many people realize. As we've discussed, in 1992 it took a brave decision to focus entirely on telecommunications. Nokia was also one of the main innovators driving the switch from analog to digital mobile telephony. Both its branding strategy and its emphasis on supply chain management took it into territory unfamiliar to both itself and the industry. But, as we've noted, in the enhancement and execution of its customer promise its main emphasis has been on incremental not radical innovation. It now faces serious competition in the smart-phone segment from new entrants including Apple, a world leader in innovating beyond the familiar.

Given Motorola's emphasis on looking for the next big thing, one might expect it to be stronger than Nokia on breakthrough innovation, but – in mobile handsets – it hasn't been. Motorola was slow to spot the switch from analog to digital and, at least with hindsight, its investment in the satellite-based Iridium was a disaster. Nor does Motorola's preference for breakthrough over incremental innovation leave it any better placed than Nokia to compete against Apple, Google, and Blackberry (RIM) in the fast-changing smart-phone market.

'Put an Open Organization at the Core'

Nokia has always been ambitious. It set out to be the global handset market leader (achieved 1998), to lead by 1.5 times (achieved 2000), to be a leading consumer brand (Top 5 global brand according to Interbrand in 2000), and to be best at supply chain management (#1 in 2007 according to AMR).[17]

Nokia has also always been a humble company. Its four values, defined by employees, *'Very Human, Engaging You, Passion for Innovation,* and *Working Together'* are tied together via the deep-rooted Finnish character of *'Noyryys',* meaning humility.[18]

There are conflicting views about Motorola's culture. Its handset business has been described on the one hand as epitomizing the values of a market-oriented firm (collaboration, respect, keeping promises, empathy, trust)[19] and on the other as 'bureaucratic', 'back-stabbing', 'toxic', and 'resulting in wasted effort'.[20]

Many would argue that, at a crucial period of great change in the market, Motorola's leadership lived in a different world from the rest of the organization. While top managers were saying the right things about delivering leading edge solutions, the reality of everyday experience for employees and customers was quite different.[21] A former executive described bureaucracy running amok: *'The last year I was there, you could get nothing accomplished. The whole organization was in paralysis. … You couldn't make a decision without needing 99 other people to make a decision. It was horrible'*. She didn't blame Galvin for creating the problems but said: *'He was asleep at the switch while some of his lieutenants screwed up'.*[22]

Out-of-touch leadership and poor strategy might help explain Motorola's poor execution and inability to deliver on its promises. Once the company became embroiled in these problems, effective execution is likely to have become harder and harder, creating a vicious circle of falling behind the market, losing money, having to cancel projects and lose more staff, and so on.

A benefit Nokia enjoyed from its openness was enhanced responsiveness. For example, around 2003, it was developing a reputation amongst carriers that: *'Nokia means "No"'*. In response, it re-structured the organization and introduced sophisticated global consumer segmentation. These actions were designed to ensure that it continued to be in touch with its customers and consumers and responsive to their needs. In 2007, however, Nokia was hit by a disruptive new competitor, Apple.

After the iPhone: Has Nokia Lost It?

The Apple iPhone was launched in summer 2007. An immediate hit, it had dramatic consequences for the handset industry. Nokia's inability to field a credible response has precipitated a freefall in its margins and share price. This collapse need never have happened. Some claim that over time Nokia lost touch with the market, so that in 2004 it even rejected a proposal to develop a Nokia online applications store. It has certainly been slow to improve the Symbian operating system – a requirement if it is to develop a fully competitive smart phone. Reminiscent of former rival Motorola, employees now talk of bureaucracy and infighting.[23] The departure, announced in September 2010, of CEO Olli-Pekka Kallavuso, Anssi Vanjoki (by then head of mobile solutions), and chairman Jorma Ollila suggests that the company accepts the need to turn a page. As Jack Johnson opines, Nokia needs to be bold and move fast, otherwise it may end up like Motorola:

> 'The last thing Nokia needs right now is to be incrementalist, because the world is changing again. Nokia today is where Motorola was in 1994 – not for the same reasons, but just as exposed'.

The challenge is not just that the pace of handset innovation has accelerated, it is that Nokia is primarily a hardware manufacturer with roots in mobile telephony while the iPhone is a powerful handheld computer and part of an ecosystem including software, mobile internet, and a huge range of applications. To-date, this has proved too far 'beyond the familiar' for Nokia. Even its hitherto very successful brand promise – connecting people – is no longer adequate.

Further, both Nokia and Apple are now under pressure from other handset manufacturers using Google's Android operating system. At the time of writing (September 2010) these other competitors, in combination, are outpacing both Apple and Nokia in the smart phone market, threatening to make Android the standard for application developers, network operators, and consumers. Nokia's

Symbian operating system might become a historical relic unless it can quickly improve its user interface and portfolio of applications, both areas where Apple has dramatically raised the bar.

Nokia's urgent challenge is to execute its strategy to be the global mass market enabler of mobile internet solutions while still exploiting its many continuing competitive advantages: handset design, supply chain and production; strong global brand, distribution and customer base; and leadership in many of the highest growth markets in the world (India, parts of Africa) where Apple is not meaningfully present and Nokia is preferred to HTC and other Android handset brands.

It is much too early to write Nokia off as a significant player in the global mobile handset market. Who is to say it cannot re-emerge from crisis, just as Apple did after two near-death experiences, as we'll discuss in Chapter 5.[24] What we can say is that Motorola – the clear market leader 15 years ago – is low on the list of Nokia's strategic concerns. Motorola is not even at the races, because of its persistent failure to offer and communicate a clear, relevant customer promise, build trust and brand equity by reliably delivering on that promise, drive the market through continuous improvements, and create an open, customer-focused organization. Innovation beyond the familiar is a requirement for long-term organic profit growth – but so are all the other elements in the organic growth framework in Figure 1.1. This framework provides the main structure for the book, a chapter for each of the five elements.

Three Recurrent Themes

In addition to the five elements of the framework, there are three other themes which recur throughout the book:

- Brand equity and customer experience
- Customer focus and insights

- Continuous improvement versus ‘heroic’ breakthrough innovation.

Brand Equity and Customer Experience

When we say ‘brand’ in this book, we mean ‘brand equity’, that is, customers’ and prospects’ beliefs and expectations about products and services sold under the brand name, and about the company that sells them. Brand equity matters because it can significantly increase customers’ likelihood of choosing, and the price they are willing to pay for, products and services sold under the associated brand name. Further, because it resides in customers’ long-term memory, it can have a long-term impact on business performance.

As we saw with Nokia, great brands are built holistically by reliably delivering a relevant customer experience, reinforced by communications – not the other way round. If great brands like American Express, Apple, Disney, GE, Google, HSBC, IBM, Mercedes-Benz, PwC, Shell, Singapore Airlines, and Tide started letting their customers down, they wouldn’t be able recover through brilliant advertising. Concretely, who would seriously propose that advertising alone would have solved Toyota’s recent sudden acceleration crisis?

Brand equity acts as a flywheel: customers’ previous experience (and the experience-based recommendations of others they trust – close friends and colleagues, trusted third parties) encourages them to keep buying, and themselves recommending, the brand over time. In fact, a strong brand is remarkably hard to destroy: customers who have a bad experience with the brand assume it’s a one-off until the negative evidence becomes hard to deny.

Customer Focus and Insights

The second recurring theme is customer focus and insights. As well as wanting the company to be more innovative, most CEOs also want their businesses to be more customer-focused.

'Customer-focused' doesn't mean 'customer-driven', either. Improvement and innovation have to be driven by people inside the organization. This includes not only senior managers but also everyone from the call center operator who suggests a better way of classifying customer questions through to entrepreneurs like Fred Smith at Fedex or Ikea's Ingvar Kamprad, with a vision of a much better way of serving customers.

Companies can never be completely customer-driven because:

- Companies can't afford to give all customers what they want at a price they're willing to pay. They have to prioritize.
- Customers often don't know what they want until someone offers it and they try it.

The most successful companies continuously raise customers' expectations above what they are used to (and the competition can deliver) while still – crucially – ensuring reliable execution to meet the customers' newly raised expectations. This approach is customer-focused, not customer-driven. It is difficult because:

- The aim must be not just to meet customer needs but to do so profitably, which means that there is a relentless pressure on costs. There is often tension between cost management and customer satisfaction.
- Valid and actionable customer insights are elusive, especially in areas where the customers themselves don't know what they want. Our advice is to use the full range of sources of insight, from formal market research to 'immersive' customer contacts and sophisticated database analysis.
- Valid, actionable customer insights are worthless unless they reach those with the power to act on them and they then do so. For this to happen, the message needs to be communicated up the hierarchy and be accepted and exploited, leading to an appropriate response. This applies whether the idea for an innovation comes from a new market

insight, a new technology, or anywhere else. In fact, some of the worst cases of fear stifling open discussion happen when the proposed innovation comes from the top.

- Irrelevant attempts to be different from the competition distract firms from delivering what matters most to current and prospective customers.

Continuous Improvement versus Heroic Breakthrough Innovation

Everyone agrees that the key driver of sustained, market-driving organic growth is, in some sense, innovation. But a high proportion of innovations fail – estimates range from 40–95% depending on the definition[25] – and there is a lot of confusion around the topic. The high failure rate and confusion are not due to lack of attention. The business shelves of bookstores are groaning under the weight of books on innovation. As we see it, there are two big problems with most of these books: their obsession with heroic breakthrough innovation and their failure to show how to keep innovation customer-relevant.

In *Animal Farm*, George Orwell's satire on the Soviet Union under Stalin, policy was boiled down to a slogan so simple that even the chickens could understand it: *'Four legs good, two legs bad'.*[26] To be fair, books on innovation implicitly assume managers are twice as smart as the chickens in *Animal Farm* and can cope with not one but two messages (although they rarely distinguish clearly between them):

- *'Radical good, incremental bad'*: the first assumption is that you should prioritize bold, disruptive innovations which lead to a quantum improvement in product, service, business systems, or value for money.
- *'Pioneer good, follower bad'*: the second assumption is that you should always aim to be the first to introduce an innovation.

According to this conventional wisdom, the ideal therefore is what we're calling 'heroic breakthrough' innovation which is *both radical and pioneering*, ie:

- The innovation is a big step, not just an incremental improvement and
- The firm is the first competitor to introduce it.

Successful heroic breakthrough innovations are highly profitable and generate a lot of ego-boosting publicity for the innovators. The media love these stories and companies that are first to the market with a genuine – or even just plausible – breakthrough innovation are guaranteed a lot of coverage. But the siren call of publicity should not distract you from the fact that heroic breakthrough innovations are expensive and usually fail.

Around 1440, Johannes Gutenberg introduced to Europe the movable-type printing press, an archetypal breakthrough innovation. Within a few years he was bankrupt. Advantage went to the 'fast followers' like the Englishman William Caxton, who took Gutenberg's innovation and used it to get rich. Today, as we discuss in Chapter 5, many highly successful firms have never made a heroic breakthrough innovation. They are often 'fast followers', capitalizing on ideas generated by others at great risk and cost.[27]

If you take one idea away from this book, it should be that **the starting point for long-term, market-leading organic profit growth is to deliver the main current category benefits to your existing customers better than the competition**. This is the exact opposite of the frequent and popular recommendation to start by looking for heroic breakthrough innovations. It is not an argument for stopping at that point – the book is called *Beyond the Familiar* not *Stick to What You Know* – but the starting point is, so to speak, inside the box.

A related theme is the complex relationship between innovation and customer focus. This is not just a matter of listening to

customers and then creating new products or services in response to what they tell you. That is part of it, but not the whole picture. Although customer insights are crucial, rather than being merely (or often) the starting point, their relationship with innovation goes both ways and relates to all stages of the process, from generating and selecting the initial idea, through development, piloting/prototyping and further development, launch, and longer-term continuous improvement. At each stage, those driving the innovation need to keep checking their emerging ideas and proposals against potential customers. At the same time, new or unexpected customer insights can suggest entirely new ideas or changes to existing ones.

Conclusion: The Structure of the Book and Five Killer Questions

The other main chapters cover the five elements in the framework one by one:

- Your promise to the customer (Chapter 2)
- Delivering today's promise better and better every day (Chapter 3)
- Driving the market by relentlessly improving the promise (Chapter 4)
- Innovating beyond the familiar (Chapter 5)
- Opening up: what leaders must do (Chapter 6)

To conclude this chapter, we offer five killer questions which every leader should ask. Each corresponds to one of the five elements in the framework and we'll return to it as part of the relevant chapter. Of course, for each element, there are many other questions you could and should ask, but these five should help you see the potential for improvement, and where the biggest opportunities are likely to be:[28]

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- *Can your middle managers accurately describe your customer promise?*
- *Can all members of your senior executive team name the three things that most undermine trust among your existing customers?*
- *Is your brand really the best option for customers? Will it continue to be next month and next year?*
- *Have you embraced any novel ideas that have produced significant innovations beyond the familiar during the past year?*
- *Have front-line staff asked you any uncomfortable questions or suggested any important improvements to your offering during the last three months?*

If you believe the answer to all five questions is yes, there are two possibilities. One is that you're right, in which case the prospects for your company are brilliant and you don't have much to learn from this book. Alternatively, you're mistaken, in which case you're also unlikely to learn much from the book unless you do something technically easy but emotionally difficult, which is to gather objective evidence on each question.

For instance, you may think that your middle managers can accurately describe your customer promise (and they probably think so too) but have you asked them? Are their answers concise, consistent, convincing, and correct? If so, bravo! – your organization is in the small, excellent minority on this dimension. If, more likely, the honest answer is no, you've already identified an area for improvement. The same applies for all five elements of the framework.

We now turn to the first of these, how to offer and communicate a clear, relevant customer promise.