CHAPTER

1

The Growth Challenge

The Big Ideas

- Profitable, organic revenue growth is harder than ever to achieve due to economic conditions, demographic shifts, changing consumer demand, and disruptive technologies among other drivers.
- Despite this dynamic, profitable, organic growth remains critical to the success of every business.
- Many of the traditional approaches for driving growth are not as successful as they once were.
- A new, more precise business model built on actionable insights into consumer demand and powered by emerging "Big Data" capabilities is a proven approach to achieving profitable growth.

"Net, Net
Economic Growth Slowing +
Margins for Error Declining =
Easy Growth Behind Us"

—Mary Meeker, Kleiner, Perkens, Caufield, Byer[1]

Few quotes sum up the current challenges facing businesses around the world better than this insight from Mary Meeker's annual "Internet Trends Report" from 2016: Perhaps growth was never easy to achieve, but clearly it will only get harder going forward. All of which makes the ability to successfully achieve profitable, organic revenue growth an even greater competitive advantage going forward. But how do managers get from the realities Mary Meeker points out to the systematic growth they need? Answering that question in detail is the purpose of this book: To share the approaches, frameworks, and analyses needed to identify and realize growth opportunities with greater precision, regardless of function or industry and to do so with solutions that range from simple "back of the envelope" exercises to those that use sophisticated Big Data analytics.

Precision That Pays

Ultimately, achieving profitable growth in a rapidly changing environment requires a more precise business system, complete with actionable insights into customer demand that leverage Big Data capabilities as much as possible. Building a more precise, demand-based business system has helped our clients, across industries and around the world, to attain new levels of growth after years of flat or declining sales, despite challenging market conditions, a changing competitive set, and disruptive new technologies.

In our experience, "precision that pays" starts with new insights into a firm's most valuable customers. Not just who they are and what they buy, but how they think about a category, a firm's offers, the brand, and the competition. Those insights are translated into more precise ways of reaching high-value customers and consumers in their preferred purchase locations and in the forms of media with which they are most engaged through a more compelling message and ultimately with offers that are more closely tailored to their demands. In short, the model we are describing starts by anticipating the demands of your most attractive customers, aligning offers and all business functions to serve those demands, and continually improving every aspect of the business by using a "test and learn" approach to monitor results and adapt as needed. This structure depends upon Big Data, or the growing sets of data that are now available, and analytics, by which we mean the tools for analyzing and making sense of those data. The dynamic growth in available information about consumers, in addition to increased sophistication in the tools and techniques used in synthesizing those data, are essential components in this framework. An overview of the approach and the questions addressed at each step could appear as shown in Figures 1.1 and 1.2.

Precision, in the context of this discussion, has two distinct meanings. One important aspect of precision is assessing how accurately you understand customer demand for your products. A good gauge for determining if you have the insights you need to build from is to ask yourself and your team a question that the founder of our firm, Rick Kash, often asks our clients: "What do you know about the demand of your most profitable customers that your competitors don't know?" Many business leaders take pause at this deceptively simple question in part because they are not exactly certain who their most profitable customers are or how best to describe them. Beyond that, they may have only a rudimentary knowledge of their customers' most important needs and the rational, emotional, and social reasons that really drive their purchase decisions.

The ultimate litmus test is to identify those insights that are truly proprietary to your business. These are the insights that create potentially significant advantages because they are not known to your competitors,

Figure 1.1 Optimized business system insights and aligned activation.

	How	Who	What	Where	Why	How To
Key Questions	• How will demand shift, what will drive changes, and what are the implications?	• Who are the most attractive customers/ consumers to focus on and why?	• What are the most attractive customers' needs/ demands?	• Where do they go to learn about, shop for, and fulfill their needs/ demands?	• Why do they make the purchase decisions they make?	• How can we win with them? To win, how much should we invest and in which efforts?
Traditional Approach	• Traditional forecasting models to develop estimates of market demand	• Market segmentation is often based on demographics and/or behaviors, which is largely backward looking and static	• Often behaviorally based…assumes the product purchased yesterday will be purchased again tomorrow	• Using a broad brush to cover all relevant channels of distribution and media regardless of the actual opportunity **within** each channel	• Insights into the rational, emotional, and social drivers of purchase decisions	• Resources are spread "horizontally" like peanut butter with each BU/brand getting its fair share of increases
Optimized Approach	• An ongoing "Early Warning System" with demand signposts and "forces and factors" to track in real time	• Enhanced Demand Landscape segments on demand and adds demographics and behaviors for forward looking, dynamic view	• Insights into the specific problems customers are trying to solve ("Jobs to Be Done") identifies offer improvement and innovation options	• Focusing on specific stores, not just channels or retailers and specific "programs," not just traditional or social media types	• Developing insights into the rational, emotional, and social drivers of purchasing within the context of the purchase decision journey	• Specific "vertical" allocations are made based on roles BUs/brands play in the portfolio; fund the most attractive opportunities on a forward going basis
Big Data Options	• Leveraged to track signposts and sense market changes on an ongoing basis	• Ability to append additional data sets to the Enhanced Demand Landscape to enrich profiles and insights in real time	• Conduct ongoing A/B testing to continually improve and optimize offers by customer segment over time based on responses	• Predictive models to assign customers and their households to segments, map home locations, and store trading areas and assess media consumption data	• Build propensity models to determine the likelihood of purchase/response for an offer by customer and/or likelihood of retaining customer	• Real time results of resource allocation investments across critical metrics …not just sales, but sales with target segment A…ability to monitor and take action closer to real time

Figure 1.2 **The optimized approach to growth goes beyond traditional approaches while leveraging Big Data capabilities.**

or at the very least, your competitors are not acting on them. It is the type of insight we uncovered in our work with Allstate Insurance that led Allstate to be the first to offer "Accident Forgiveness" and "Deductible Rewards®" for good drivers.[2]

Prior to introducing the Accident Forgiveness and the Deductible Rewards® features in a new offer Allstate called "Your Choice Auto Insurance," Allstate and other insurance companies that sold through insurance agents were facing significant pressure from insurance companies like GEICO that sold policies directly over the phone or online. The "direct model" had much lower costs than the agent model, which allowed the direct players to charge less for "no-frills" insurance packages. GEICO, the leader among direct players, embodied this approach through its well-known ad slogan, "15 minutes could save you 15% or more on car insurance."[3] As the no-frills, direct insurance players continued to grow, the management team at Allstate was concerned that car insurance was quickly becoming a commodity market in which the lowest-cost provider would always win. Increasingly, the benefits of having a personal insurance agent located close by did not seem to justify the costs of the agent-based model. The team at Allstate wondered how it could break out of the commodity trap by successfully differentiating its offers while also making its agent network an advantage again.

The answer would come from two important, proprietary customer insights. First, Allstate discovered through quantitative research that lowest price was not the only consideration among all car insurance customers. In fact, about 40% of consumers were looking for high-quality coverage and the ability to protect their net worth in the event of a car accident.[4] Second, Allstate came to realize how unfair these highly attractive, quality-focused insurance customers thought car insurance was. These customers did not understand why even the most responsible driver could be penalized for things that they could not possibly control, such as having his or her car damaged by another driver while parked in a parking lot. It also seemed incredibly unfair that consumers paid insurance premiums for coverage year after year, but if the consumer ever actually needed to use his or her insurance policy by filing a claim for an at-fault accident, those premiums would suddenly spike upward. What these valuable consumers really wanted was to make the current relationship with their insurer less one-sided and much more reciprocal. With these insights, Allstate created "Your Choice Auto Insurance" to satisfy those complaints of inequity that the company was hearing from its most valuable consumers.

Allstate's Accident Forgiveness feature was perfectly designed to appeal to the most responsible drivers in the market. This feature allowed an Allstate customer a limited number of at-fault accidents over time that could be "forgiven," meaning the accident would not raise the driver's insurance premiums the way most other auto insurance policies would. The Accident Forgiveness offer was incredibly appealing to good drivers, for they were willing to pay a slight premium for protection against the risk of unexpected rate increases. Moreover, drivers who had frequent accidents over a relatively short period would quickly see their monthly premiums rise and would never realize the type of benefit their low-risk counterparts gained from Accident Forgiveness. Additionally, low-risk drivers were less likely to leave Allstate because they were earning Deductible Rewards® – or period-over-period rate decreases as a reward for a clean driving record – each year they went without an accident.

Allstate's "Your Choice Auto Insurance" became the most successful new auto insurance offer the company had ever introduced at that point.[5] Soon after the new offers were introduced, *The Wall Street Journal* reported that Your Choice was having a significant impact on sales: "Anita Sally, an Allstate agent in Bartlett, Tenn., says her sales of Your Choice products are up 20% to 30% over sales of Allstate's standard product."[6] Ultimately, "Your Choice" was so successful in the car insurance market that the concept was also extended to home insurance.[7]

Beyond the precision behind proprietary insights like those that Allstate leveraged, we also use precision in the context of making the best resource allocation decisions in order to win in the market. Actionable demand insights have helped our clients optimize decisions about where to invest to generate attractive returns and where to avoid spending. Allstate saw this firsthand with the decision to target customers who were seeking higher quality rather than the lowest price, which facilitated the decision to design and launch successful "Your Choice Auto Insurance" offers to win with those customers rather than wasting resources chasing cost-conscious customers.

In many cases, these precise new insights are either identified through, or enabled by, the use of Big Data. This data-driven precision has generated actionable insights that have spurred countless clients to invest in exactly those products or services that are most valued by their key customers while avoiding the wasted spend from adding costly features that those same customers do not value. In addition, for products sold through retail stores, more precise insights into demand allow businesses to determine which stores have the highest potential for selling their products and which stores should be avoided. One approach for identifying the highest potential retail stores for a given product is to map all 117 million U.S. households[8] to the stores where they shop using Nielsen data or other proprietary data sets. The level of precision possible can even determine exactly where within a specific store a given product should be sold and how it should be merchandised. A more refined understanding of demand can also be the catalyst for the development of an entirely new business model instead of simply adapting old models to fit new targets.

The guiding principle is to focus on what we call "precision that pays," or proprietary customer insights that explain the drivers of customer preference and why they *really* choose the products and services they buy. The right level of precision helps guide the best possible resource allocation decisions while avoiding unnecessary waste. Ultimately, "precision that pays" can increase sales while lowering costs, as the case studies in this book will demonstrate.

A Challenging Growth Environment

We believe greater precision will be needed as the rapid, often dramatic changes taking place in today's business environment make the challenge of achieving profitable growth going forward more difficult than ever. Among the major drivers of these significant shifts are a slowing economy; globalization; demographic changes; digital disruption to traditional business models; other new technologies, such as 3D printing, nanotechnology, and robotics; evolving consumer trends; and changing competitive dynamics. Any one of these factors alone might pose challenges to an individual firm's growth prospects, but taken together, they create major barriers. As Mary Meeker points out, in a business environment with "margins for error declining,"[9] success will require greater precision than ever before.

One of the most significant impediments to corporate growth is the stagnant economic environment that the United States and many other countries are experiencing. Unfortunately, the U.S. economic forecast continues to have bleak short-term prospects, with low growth coupled with increasing uncertainty. The Conference Board projected U.S. GDP growth of 2.2% in 2018,[10] which is far below the historical average from 1948 to 2010 of 3.31%.[11] Long-term projections forecast lower levels of GDP growth as a "new normal" for the U.S. According to the PricewaterhouseCoopers (PwC) report "The World in 2050," published in 2015, average real GDP growth for the U.S. from 2014–2050 is projected to be only 2.4% annually.[12]

In many parts of the developed world, prospects for economic growth are even lower than the U.S. forecast. The same PwC report projects average real GDP growth per year for the European Union at 2.0% for the period from 2014–2050. Notably, key developed markets, including Germany and Japan, are expected to experience GDP growth rates of only 1.5% and 1.4%, respectively. GDP growth rates for both Germany and Japan will be pulled down, in part, by negative population growth rates of −0.4% and −0.5%, respectively, according to the PwC report.[13]

Meanwhile, the rapid growth experienced by many developing markets, especially China, has cooled over the past decade. Over the past 20 years (1996–2015), real global GDP growth averaged 3.8% per year according to the International Monetary Fund's "World Economic Report" from April 2016.[14] During that same period, China experienced average GDP growth of over 9.4%, based on data from The World Bank.[15] As recently as 2007, China had achieved annual real GDP growth of over 14%.[16] However, even China is forecast to regress closer to the global mean with projected annual GDP growth of only 3.4% for 2014–2050, according to PwC.[17] Meanwhile, global GDP growth for 2014–2050 is forecast to decline by almost 25% to about 3.0% annual growth .[18]

Generational Shifts in the U.S.

One of the drivers of the low growth forecast for the U.S. is a major demographic shift.[19] Consumer spending currently accounts for over two-thirds of the U.S. economy,[20] which is an outcome of the economic growth seen in the U.S. post–World War II, along with the rapid population growth during that period that became commonly known as the "Baby Boom."[21] Throughout the Baby Boom, generally considered the period from 1946 to 1964, the U.S. population increased by an average of about 1.8 percent per year.[22] In contrast, the U.S. population grew by only 0.7 percent from

July 2015 to July of 2016, according to the U.S. Census.[23] The last time that U.S. population growth rates this low were recorded was in 1937 as the U.S. suffered through the Great Depression.[24]

Starting in 2015, Baby Boomers were no longer the largest living age group in the U.S. Instead, the Millennial generation, which is considered by the U.S. Census to have been born between 1982 and 2000,[25] surpassed the Boomers in terms of number of people.[26] Looking forward to 2020, the U.S. Census Bureau predicts that there will be 81 million Millennials and about 71 million Boomers.[27] As Millennials grow as a percentage of the total U.S. population, they will also grow in terms of purchasing power. Household spending attributed to Millennials is projected to eclipse the spending represented by Boomer households starting in 2018 or 2019.[28] By 2020, Millennial households in the U.S. will spend over $1.8 trillion annually while Boomer households are expected to spend under $1.6 trillion per year.[29] All of this evidence shows that, after this inflection point, the U.S. will transition from a Boomer-driven economy to one driven by Millennial spending.

Several interrelated economic and demographic factors will weigh on the U.S. economy during this transition. First, the U.S. middle class continues to shrink. From 1971 to 2015, adults in the U.S. middle class, defined as households with an annual income between $41,000 and $125,000, has dropped from 61% of adults to 50% of adults.[30] At the same time, the two lowest U.S. income brackets have increased by 4 percentage points, from 25% to 29%, and the two highest U.S. income tiers have grown by 7 percentage points, from 14% to 21%. Given these trends, along with the fact that consumer spending represents about two-thirds of U.S. GDP, a vibrant, growing middle class and the millions of purchases that these consumers make every day are absolutely critical to driving GDP growth.[31]

Millennials are just entering what should be their peak earning and spending years. In the U.S., income and spending both tend to increase until age 34 before peaking from ages 35 to 54. Starting at age 55, income and spending begin to decline.[32] The oldest Millennials are just turning 35, but the spending and economic growth this generation should be driving may be delayed as Millennials delay the many major life milestones, including marriage, starting a family, or buying a home, that often trigger significant spending.

One of the reasons Millennials may be delaying key life stages and the spending they typically trigger is the crushing amount of student debt they have accrued. In the span of just a few years, from 2005 to 2012, the average amount of student debt among Americans under 30 almost doubled from $13,340 to $24,897.[33] By 2016, the average graduate had over $37,000 in student loans, and as a generation, Millennials are carrying the majority of the staggering $1.4 trillion in U.S. student loan debt.[34] No wonder the wedding has to wait.

Marriage among Millennials does provide a case in point for how dramatic these generational changes have been. In the 1970s, 80 percent of Americans aged 30 or younger were married.[35] Today, 80 percent of Americans aged 45 or younger are married because most Millennials have significantly delayed marriage versus prior generations. In fact, it is more common for Millennials aged 18 to 34 to live with their parents than to live with a spouse. Compare this to 1975, when the majority of 18- to 34-year-olds, fully 57% of them, lived with their spouse.[36]

The fact that Millennials have delayed leaving home and starting households of their own has slowed housing starts and dampened the housing sector, which is a major part of the U.S. economy as a whole. As officials from the Federal Reserve Bank of San Francisco reported, "The recovery in the housing sector has been even slower than for the overall economy. In particular, the pace of housing starts remains subdued by historical standards. This muted recovery can be traced in part to the slow pace of household formation, especially among young adults. In turn, the share of young adults living with parents has grown in recent years."[37]

Whether or not Millennials will spend at the level of prior generations, as they hit the traditional peak earning and spending years, is an open question. What is not being questioned is the fact that Boomers, who are retiring in record numbers, will begin spending less.[38] By 2060, the number of Americans aged 65 and older is expected to more than double, from about 46 million people today to over 98 million in 2060.[39] According to Derek Thompson of *The Atlantic*, "Of the many significant forces shaping the U.S. economy – including globalization, automation, and housing supply – none is so inevitable and invisible as the sheer march of time for today's adults. In the 1950s, at the height of the U.S. manufacturing supremacy, less than 10 percent of the country was older than 65. That share will double to 20 percent by 2050."[40]

The Age of Disruption

In addition to an increasingly difficult growth environment, many established companies and industries are facing new types of competitors, often from nontraditional players, as industry disruption becomes the norm. Online models and technology have been broadly leveraged to disrupt major industries, including retailing, media, financial services, and automotive, among others.

In the retail industry, Amazon and other online retailers are changing the face of the nearly $5 trillion U.S. retail industry.[41] Long gone are the days of the general store and its motto, "If we don't have it, you don't need it." The virtually unlimited selection, incredible convenience, and increasingly rapid product delivery of online shopping has put pressure on traditional "brick and mortar" stores of all types, including department stores, specialty retailers, and increasingly, grocery stores. Amazon's acquisition of Whole Foods in June of 2017 certainly seems to underscore how serious online retailers are about growing in grocery.[42]

Online retail sales have more than doubled from 2010 to 2016, going from $153 billion to $387 billion or from about 4% of total sales to 8% of total retail sales.[43, 44] More importantly, the percent of consumers who researched their purchase online but then bought it in a physical store has jumped from 24% in 2010 to 58% in 2016.[45] While retail sales as a whole increased at a rate of about 3.4% per year from 2010 to 2016, the portion of sales that was either digitally influenced or completed online grew by 17% per year. At the same time, traditional store-based retail sales with no online research or any type of online involvement declined by over $1 trillion from 2010 to 2016.[46]

Meanwhile, looking beyond retail, Facebook, Google, and Netflix, along with other social media sites, search engines, and streaming media services, are changing the ways people consume media, find information, and spend their free time, all of which has had an enormous impact on traditional media including television, radio, and newspapers. As audiences have increasingly moved online, the advertisers have followed by using their ad budgets to target digital consumers with greater frequency. In 2016, advertising spend in the U.S. topped $200 billion, making the U.S. by far the largest advertising market in the world in terms of dollars.[47]

2016 represented an inflection point in the advertising world, as for the first time digital ad spending eclipsed TV ad spend.[48] This shift marked a dramatic change for an industry that was dominated by the "Big Three" TV networks – ABC, CBS, and NBC – from the late 1940s to the early 1990s. During that period, almost any advertiser could reach the audience it wanted to influence on one of the three major TV networks. Now, TV audiences are much more fragmented across hundreds of channels while the two biggest digital players, Google and Facebook, provide access to huge audiences and offer the ability to target customers more precisely than ever before. The shift from TV to digital will continue to swing, as digital ad spend is projected to grow to over $105 billion by 2020 while TV ad spend will increase more modestly to about $77 billion.[49] Clearly, in this new Age of Disruption, the real question is not who or when your business will be disrupted, but how can you best disrupt your own industry.

Technology is not the only driver of disruption, however: Changes in consumer preferences are bringing significant disruption to many industries, including the U.S. food and beverage industry. Industry veteran Steve Hughes, who had leadership roles at ConAgra, Tropicana, Celestial Seasonings, and White Wave before founding Boulder Brands, told *Fortune* magazine, "I've been doing this for 37 years, and this is the most dynamic, disruptive, and transformational time that I've seen in my career."[50] A similarly stark picture for the packaged food industry is painted by Bob Wheatley, who is the CEO of Emergent. Wheatley, whose firm helps companies understand the potential business opportunities as consumers pursue healthier living, noted in a blog post, "The single most important and disruptive change in food culture, now winding its way through virtually every part of the industry, is the overwhelming desire for fresh foods . . .[.] The packaged food world finds itself facing a state of transition as fresh versions overtake and replace their processed cousins . . .[.] We are moving from a production-fueled system to a demand-driven system, founded on the consumer's interest in real foods."[51]

In an interesting reversal taking place across industries, the traditional "barriers to entry" that have long protected established industries and businesses have increasingly become impediments to their success. Economies of scale and vertical integration across the supply chain once allowed large firms with familiar, mass-marketed brands to consolidate industries by buying up smaller rivals or making it nearly impossible for them to compete successfully. Now many fast-growing businesses across industries, including food, beverage, clothing, and fashion accessories, are the small, "authentic" brands that charge a premium price for products that are hand-crafted, artisanal, small-batch, or bespoke. These brands do not have huge economies of scale, massive advertising and promotion budgets, or dominant distribution networks. As Denise Morrison, CEO of the Campbell Soup Company, noted, "We understand that increasing numbers of consumers are seeking authentic, genuine food experiences, and we know that they are very skeptical of the ability of large, long-established food companies to deliver them."[52]

Meanwhile the "sharing economy" has created platforms for ride sharing (Uber and Lyft), peer-to-peer lending (Go Fund Me), home rental (Airbnb), and even sharing power tools and other equipment with neighbors (Peerby). In many respects, the sharing economy really demonstrates a fundamental shift from the traditional definition of businesses as one of two types: Businesses that sell to other businesses (B2B), or businesses that sell to consumers (B2C). The sharing economy is typically made up of platforms that allow consumer-to-consumer (C2C) transactions to provide goods and services. These C2C transactions generally focus on "monetizing" the many underutilized items consumers own, from renting out infrequently used items, such as power saws, prom dresses, or weekend homes, to using extra cash to provide loans to others. These sharing economy platforms allow people to use sporadic periods of free time to engage in a "side hustle" to earn extra money. One of the major reasons that the sharing economy is a relatively recent phenomenon is that virtually all sharing economy businesses rely on Big Data, complex analytics, and emerging technologies and platforms to make them possible.

The Profitable Growth Imperative

Despite the potential headwinds, profitable growth is still the key to a successful business. As a *McKinsey Quarterly* article from 2015 noted, "There's no escaping the fact that growth is a critical driver of performance as measured by total returns to shareholders (TRS). And TRS underperformers are far more likely to be acquired."[53] The most successful businesses reliably generate meaningful levels of growth for shareholders and remain independent, while those publicly traded firms that fail to drive consistent growth are more likely to be taken over by new owners. Simply put, growth separates the winners from the also-rans.

When evaluating firms to invest in or acquire, Warren Buffett, arguably the world's most successful investor, uses consistent, profitable growth as his preliminary search criterion.[54] One measure of profitable growth is return on shareholders' equity (ROE), which is a robust metric for assessing the underlying health of a business while also providing a benchmark versus other companies. In addition, ROE, which is calculated as a firm's net income divided by its shareholders' equity, can be a useful indicator of a firm's future potential. As noted by the aforementioned equation, ROE will grow as net income increases, assuming constant shareholders' equity. However, simply having a brief spike in ROE, driven by cost cutting or a "one-off" new product, is not enough to demonstrate the strong trend for which Buffett is searching. Instead, he and his team at Berkshire Hathaway focus on acquiring publicly traded companies with long histories of independently audited results that can be analyzed to determine the drivers of net income growth, along with the sustainability of those drivers.[55]

Warren Buffett looks for other key metrics in addition to ROE, such as the uniqueness of the company's product offerings, the firm's profit margins, the firm's debt levels, and the strength of the management team, among others.[56] As a value investor, Buffett also looks to purchase businesses with attractive growth prospects at a discount to what he believes to be the intrinsic value of the company;[57] however, the business's potential to drive profitable growth going forward is the real key. In an interview with the Financial Crisis Inquiry Commission in 2010, Buffett summed this up as "pricing power," noting, "The single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising prices by ten percent, then you've got a terrible business."[58] Raising prices without losing share to a competitor is one driver of profitable growth and is a reflection of a highly differentiated set of products or services without meaningful substitutes.

The Innovation Edge

Some businesses, like Apple, drive organic growth and pricing power through successful innovation. As Walter Isaacson noted in his best-selling biography, *Steve Jobs*, "At a time when the United States is seeking ways to sustain its innovative edge, and when societies around the world are trying to build creative digital-age economies, Jobs stands as the ultimate icon of inventiveness, imagination, and sustained innovation . . .[.] He and his colleagues at Apple were able to think differently: They developed not merely modest product advances based on focus groups, but whole new devices and services that consumers did not yet know they needed."[59] So why not use innovation as a means of driving growth by introducing exciting new "must have" products to customers as Steve Jobs did?

The problem, of course, is that Steve Jobs was the exception rather than the rule, for achieving successful innovation is incredibly difficult to execute and sustain. In fact, a recent study published in the *Harvard Business Review* reported that "84% of corporate leaders say innovation is a high priority" and that "94% are dissatisfied with their firms' innovation performance."[60] Without Steve Jobs, even Apple appears to have lost some of its innovation edge. Adam Lashinsky, author of *Inside Apple*, had this to say one year after Steve Jobs' death: "Apple just had one of the most extraordinary 15-year runs [in business history]. It is unreasonable to duplicate that, even if Jobs were still alive."[61] And, a *National Public Radio* report from 2017 argues, "Both Apple fans and analysts who follow the company are beginning to wonder whether Apple has lost its mojo."[62] Even Apple co-founder Steve Wozniak told *Bloomberg Canada* in a 2017 interview that his bet is that the next great innovation, or "moonshot," as he called it, "will not come from Apple but from Tesla."[63]

None of this is to say that innovation is impossible or that innovation should not be explored as a means of driving growth. It simply points out the reality that meaningful innovation, like profitable growth overall, has become more difficult for most businesses to achieve. The good news, as we will discuss later, is that a more precise understanding of demand, customers, competitors, and market opportunities has helped our clients across industries to identify and introduce many of the most successful new offers they have ever launched.

Big Data's Role

Could Big Data be the answer for finding profitable growth? Big Data has become a common buzzword that many business managers use today without a very deep understanding of what it means or how it could be used to support their growth initiatives. As Floyd Yager, SVP at Allstate, put it, "Everyone is saying Big Data is going to change the world. But companies have to figure out what's important to them and get out of the hyped world."[64] In other words, most businesses need to stop talking about Big Data and must go beyond merely collecting massive amounts of information. They need to start leveraging those data in ways that tangibly impact business performance.

We define Big Data as a vast ecosystem of diverse pieces of information sourced from different domains that are supported by computer science, machine learning, and data visualization technologies. The power and the promise of Big Data can be harnessed across all aspects of the business, especially in support of identifying and executing profitable growth. Specifically, Big Data can be used to help form new hypotheses, generate insights, conduct statistical testing, create simulations, and build predictive models to answer the whys, the hows, the wheres, and the whens of consumer needs and behavior, competitive dynamics, and market evolution. These approaches could yield unprecedented levels of proprietary, actionable knowledge of your customers along with precise strategic and tactical plans to satisfy their demand.

Despite its promise, Big Data alone is not the answer to profitable growth. In many cases, business practitioners make the mistake of attributing causal effects to spurious correlations found in the data. One example of this issue that many consumers experience is the seemingly endless stream of ads that pop up on every website you visit. These ads will invite customers to purchase the exact same chinos, Mother's Day gift, or coffeemaker that they recently purchased online. This example is a mistaken use of what is called "behavioral data." The underlying logic is that the behavior observed is strongly correlated to something this individual will do again or is highly interested in purchasing again. In this case, the behavior of buying some chinos leads to the mistaken assumption that the person who recently bought chinos will buy more chinos today. So, as the person who bought chinos explores his or her favorite websites, social media outlets, and search engines, the algorithms keep serving up offers for chinos even though that person may not be interested in buying chinos again in the short or long run.

When used effectively, past historical information that is backward-looking in nature actually can be very predictive of future outcomes. Winston Churchill highlighted this point when he said, "The farther back you can look, the farther forward you are likely to see."[65] The meaningful correlation for the person buying chinos might be that he or she purchases chinos every other year, or that the chinos are purchased each spring, or even whenever the weather in his or her town gets back above 60 degrees each year. Big Data, if used correctly, can help firms pinpoint which of these cases is true, and enable decision-making regarding how and when to promote appropriate products.

Several years ago, we identified an actionable correlation for a client who makes an antacid relief product: The people who used the product most often experienced more stress than most other people do, and that stress often translated into an upset stomach. Like many people, money and personal finances were among the greatest sources of stress for those who frequently experienced an upset stomach. One behavior these people commonly exhibited was to check their investments and their retirement funds whenever the stock market went down. So, rather than be one of dozens of remedies for an upset stomach on the health websites where all of their competitors advertised, our client broke through the clutter by being the only antacid on financial sites whenever the roller coaster ride of Wall Street created the greatest stress among the heaviest users of antacids.

We believe Big Data should be part of the answer now and that it will become an increasingly important part of the answer going forward. But, we also believe that a clear-eyed understanding of the limitations of Big Data is necessary. Big Data is really a vast amount of information that can be mined and analyzed, not a solution for driving profitable growth in and of itself. One of the best ways to leverage Big Data is to make the insights derived from it part of a continuous "learning lab" for driving growth. What this means is to constantly test new hypotheses and insights gleaned from Big Data and then learn how to improve approaches based on the results of each test. Did consumers respond more often to e-mail message A or message B? What drove the biggest increase in sales, a 5% discount or free shipping? The key to building this structure is to cultivate an environment for rapid testing and evaluation of outcomes so that any strategies evolve in a continuous iterative fashion. The result is greater precision in planning your actions along with better results from your actions.

Cost Cutting and Its Limitations

Given how much more difficult profitable growth is to achieve, it is no wonder that many companies are on a cost-cutting binge. Cost reduction programs such as Zero-Based Budgeting (ZBB) seem to be *the* strategy for many companies that can't find organic, top line growth. According to *Seeking Alpha*, a U.S. stock market analysis website, the number of companies mentioning their ZBB programs during their earnings calls increased more than sixfold in the span of just two years, from only 14 in 2013 to 90 companies in 2015.[66] Cutting costs can certainly improve the bottom line for companies, but these programs have obvious limitations. As a result, Wall Street has historically rewarded predictable growth much more than it has rewarded cost takeouts.

Clearly, costs always need to be managed: Unnecessary waste should be eliminated whenever possible, and, at times, costs need to be reevaluated and reined in. While cost-cutting programs are sometimes required, they have several potentially significant downsides of which business leaders must be mindful. First, there is a limit to the amount of cost that can be taken out over a given period. A cost reduction program may have meaningful success in year one, but could then run out of costs that can be squeezed in year two. As Nestle's CEO, Ulf Mark Schneider, said at a 2017 shareholder's meeting, "Many companies are focusing on radical cost-cutting to deliver higher profits in the short term. This approach is not sustainable."[67]

Beyond the potential lack of sustainability, there is no doubt that cost cutting can go only so far before it potentially damages the business. Identifying the cost boundaries that should not be crossed during a "radical" cost-cutting exercise can be difficult, especially when the organization has created strong incentives to achieve significant savings. The potential damage done if the line is crossed could include reducing quality so much that it causes customers to leave, deferring investments that might eventually hobble the business, or drain employee morale. Any one of these unintended consequences of a cost-cutting program could take years to repair.

In addition, cost reduction programs may not create competitive advantages as competitors often follow suit and streamline their cost structures. The jump from 14 to 90 companies announcing ZBB programs seems to suggest that many companies could find themselves right back to the status quo as their own cost reduction efforts are matched by their key competitors. In other words, conducting a program like ZBB may become table stakes for competing rather than something that creates any type of sustainable competitive advantage.

However, ZBB and other cost-cutting programs have their proponents and have successfully delivered results in terms of profit gains. Perhaps the most famous proponent of the approach is the Private Equity firm 3G Capital, which owns Anheuser-Busch InBev, Kraft Heinz, and Burger King, among other companies. While controversial, the 3G approach has had success, as noted by the *Financial Times*: "The founders of 3G have transformed the beer, fast food and food manufacturing industries with bold acquisitions, which are quickly followed by a brutal but disciplined attack on costs, a surge in profitability and high returns to shareholders."[68] It should also be noted that Warren Buffett worked with 3G to create Kraft Heinz and to acquire Canadian fast food and coffee chain Tim Horton's.

Other industry observers believe that 3G's unrelenting focus on costs results in a poor track record of organic growth, brand building, and innovation. According to *Fortune* magazine, "Kraft Heinz today illustrates the essential 3G: quite possibly the world's best at creating value by eliminating costs and focusing on the most promising opportunities, but not adept at growing the top line organically."[69] In addition, *Fortune* notes that growth is driven by acquisitions rather than through organic growth, and that finding attractive acquisitions can't go on forever: "The 3G managers developed extraordinary skill and greatly increased the value of every company they bought, but they were not great innovators . . .[.] And there's the rub: a central feature of this model is it can't work forever."[70]

The 3G team and its proponents argue that they have invested in and achieved organic growth. According to Alex Behring, chairman of Kraft Heinz and a founding partner of 3G, "We build brands. We aggressively reinvest in our product innovation, expansion into global white spaces and brand health."[71] Mr. Behring says that by freeing up funds through cost cutting, 3G has been able to invest in strategies that have resulted in successful organic growth.

While a traditional cost-cutting program like ZBB is unlikely to drive organic growth in and of itself, it certainly can free up the dollars to invest in growth. As a *McKinsey Quarterly* article aimed at dispelling common "myths" about ZBB programs stated, "ZBB frees up unproductive costs and allows those savings to be taken to the bottom line or redirected to more productive areas that will drive future growth."[72] Savings generated from ZBB can be used to invest in brand building and innovation to enhance the long-term health of the business, but those savings often drop to the bottom line to immediately improve margins and shareholder returns instead.

In our experience, companies across industries can capture cost savings that go beyond what cost-cutting programs like ZBB can identify *in addition to* creating the insights required to drive profitable, organic growth. The key to optimizing costs and maximizing growth opportunities simultaneously is developing more precise, proprietary insights into customer demand and how to win with the most attractive customers in the market using the latest Big Data advances as much as possible.

Getting to Growth

Achieving profitable growth is still critical to every business's success. However, successfully driving profitable growth has become harder than ever. It seems clear that in this new environment, many of the traditional approaches to driving growth and profitability, including innovation efforts, a reliance on historical "barriers to entry," and cost-cutting programs, are not working as well as they once did. We believe there is a better way – a more precise, more predictable way – of achieving growth, which we will discuss throughout this book through a series of framework overviews and discussions of client success stories. First, however, we will introduce a critical framework, called the "Demand-Based Business System," that we have deployed in many organizations to drive growth and, in turn, help them rise to the top in the incredibly competitive industries in which they operate.

Questions for Monday Morning

1. Who are your most profitable customers?
2. What do you know about the demand of your most profitable customers that your competitors don't know?
3. How would you describe your most profitable customers, in terms of demographics, behaviors, category engagement, or other key descriptors?

4. Where do you see opportunities to be more precise with your target consumer?
5. How can your firm leverage Big Data to gain a better understanding of what your customers are demanding?
6. How can you ensure that your firm is using Big Data and analytics effectively, while also avoiding "analysis paralysis"?
7. What new competitors are you seeing in your industry? From where might additional disruption to your business come?

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