Right brain, left brain

PART 1

Right brain, left brain

'The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time'

F. Scott Fitzgerald

- The human brain is an extraordinary result of natural evolution, and of course its structure is far more complicated than a simple left-right division. Indeed neuroscience has developed rapidly in the last few decades, and we are continually learning how to interpret our thoughts and actions, and improve them.
- Left and right brain thinking is still a useful metaphor in considering how we think. 'Right brain' is the more 'imaginative' side – subjective, intuitive, holistic and divergent – whilst 'left brain' is the more 'intelligent' side – objective, interactive, analytical and convergent.
- We approach the future of our business and markets with our eyes wide shut. We need to open our minds to the bigger picture – the world around us, what other companies do, what will drive and sustain our growth, and our role in it. This is a right brain opportunity.
- Business has become too focused and mechanical (left brain), not giving enough time and space to think more broadly and holistically (right brain). Of course we need both – left and right brain, intelligence and imagination – but it is the connections between the two that make the difference.
- If we want to succeed in business today – to make sense of our changing and confused, fast and fragile world; to be effective entrepreneurs and business leaders in it; and to create and sustain profitable growth – we need to think with our whole brain, not just part of it.

TRACK 1: FAST GROWTH

Driving and accelerating business growth

'You either step forward into growth or you will step back into safety'

Abraham Maslow

A more **intelligent** approach to **growth** that embraces stronger *left brain* thinking

- Maximize the economic value creation for stakeholders
- Focus on best market, customer and product opportunities
- Add more distinctive value to your products and services
- Strengthen the purpose and competitive position of your brand
- Extend into adjacent categories and markets
- Manage growth as a process and as a diverse portfolio
- Ensure that your growth is profitable, sustainable and creates value.

A more **imaginative** approach to **growth** that embraces stronger *right brain* thinking

- Shape the future in your vision, rather than live by somebody else's
- Identify and capture new market opportunities first
- Disrupt the accepted rules, conventions and business models
- Exploit your intangible business assets in more powerful ways
- Collaborate with different and interesting partners
- Accelerate growth through platforms and accelerators
- Grow your business through 'The Seven Lives of Business'

Growth is easy, isn't it?

Discount your prices and your revenue goes up. Recognizing that you also need to make a profit, you cut your costs and the margins quickly improve. Wanting to drive even more dramatic growth, you acquire another company and you can double your size in no time. But it doesn't last.

Sustaining growth is not easy. Sustaining profitable growth is hard. Creating significant and sustainable growth is the imperative for every small business, and indeed the challenge for every large business today.

Achieving great results creates the expectation that you can do it again and again. You need to sustain it. Investors want to see evidence of the future profit streams that will give them a decent long-term return on their investments. Customers recognize that growing companies are doing something right and want to be part of it. Employees know that growth creates a bigger pie in which they can take a thicker slice.

Yet few companies manage to sustain profitable growth. They appear to reach a stumbling block when they reach the perceived limits of their current world, their existing markets and models, capabilities and ambitions, energy or inspiration.

With their heads down and spreadsheets buzzing, they seek to squeeze more out of their existing markets – an extra point of market share, another derivative product development or a more efficient process, that might secure a slightly greater margin. These things matter, but they don't create growth that is significant and sustainable.

The obsession with doing more of the same, through optimization or small improvements, is a significant obstacle growth. Fractions of market share or profit margins will help, but won't make the real difference. The danger is that we plough the same furrow, exploiting what we know best, delivering the same products, doing what we have always done slightly better.

We lose sight of the changing world outside.

We end up playing the old game, whilst oblivious to a new game – a new market, a new customer desire, a new business model. And because we prefer to make the most of what we have, we become hindered by our existing business, locked in our past and current success. The real danger is that incrementalism leads to irrelevance.

So how does a business, large or small, create and sustain profitable growth?

The answer is already in our heads. As human beings we have an enormous capacity to think, to sense and respond, to innovate and change. We each have 100 trillion brain cells, and probably use about 1% of them at any time. At an incredibly simple level we can categorize our brains into left and right sides – reflecting our ability to think intelligently and imaginatively, analytically and intuitively, sequentially and holistically.

Yet it is the connections between these that really matters. In Einstein's case, his brain remained the object of fascination and research for many years, scientists concluding that it was in some ways different – not simply bigger, but better connected. The grey matter in our heads is connected by white matter. So it is perhaps this white stuff, the connective tissue, that holds more clues to our own genius, and the best opportunities for personal and business growth.

The successful growth business is firstly an imaginative business. It then intelligently focuses on the best opportunities. Whilst most of today's businesses are dominated by left-brain thinking, it is the right-brain thoughts that unlocks newness and enables them to start new things, and make the leaps forward.

Growth businesses succeed by thinking more broadly – seeing a bigger picture, a more holistic view of the market challenges and opportunities. They see a broader context, and by doing so they see more opportunities to exploit, more ways to be different, more sources of future profit.

And the more you have to choose from, the richer your options, the more likely you are to find the best, and the more sustainable you can be in exploiting them.

This might seem overly ambitious, particularly for a small business struggling to survive. Yet, even a few people with dedicated time can apply enormous brainpower to thinking more broadly, deeply and clearly – new thinking that could deliver extraordinary results.

Large businesses need a mix of people with left- and right-brain preferences, or ideally both. Small businesses must choose their colleagues with even more care. The visionary, creative, intuitive entrepreneur – from Richard Branson to Bill Gates – has always sought a more focused, analytical manager to be their side-kick.

More intuitive, more divergent, more holistic thinking enables us to see things differently, and thereby to think and do different things – to challenge conventions, to explore new possibilities, to hypothesize alternatives. More logical, more convergent, more focused thinking then enables you to choose the best markets, products, customers and approaches to focus your resources to be successful in this wider world.

Today's high growth business is an inspired business, fusing imaginative stretch and intelligent focus in order to deliver extraordinary results.

Imaginative with your right brain. Intelligent with your left brain. Inspired whole brain thinking.

1.1 THE SEVEN LIVES OF BUSINESS
The challenge of growth, the challenge of change

The origins of business thinking go far back. Three thousand years ago, the Chinese developed their word for 'business', based on two ancient symbols – the first refers to 'birth' and 'life' and the second to 'meaning'. It seems that the Chinese recognised that growth, sustained with an enduring purpose, is fundamental to business success back then, just like we do today.

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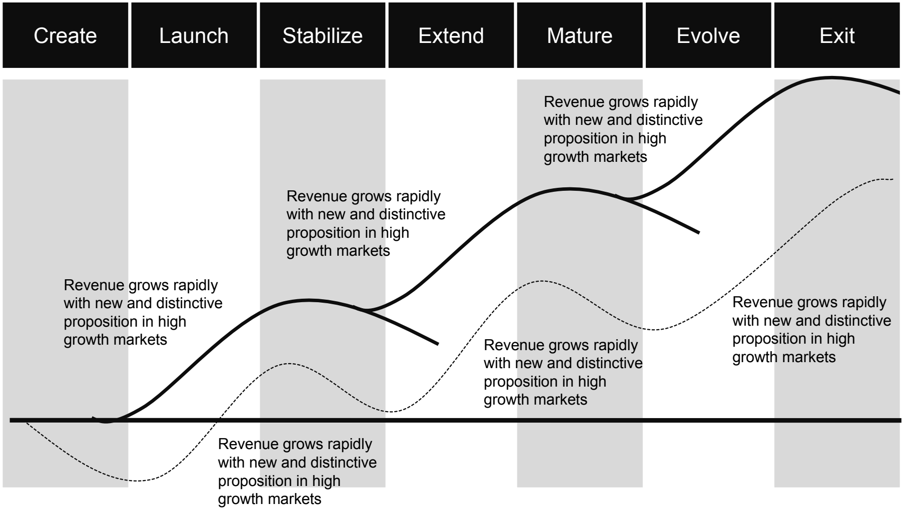
Growing businesses have different characteristics, challenges and opportunities, as they evolve from start-ups into much larger organizations. Most companies don't recognize the growth phases that they move through; they suffer from the growing pains without recognizing what to do, and they miss the best opportunities which each phase uniquely offers.

- What is required to sustain a growing business?
- What are the biggest challenges and opportunities at each phase?
- What are the most appropriate styles of leadership and management as it grows?

There are typically seven stages in the life of a business. Of course, every organization and market is different, and some companies will choose to stay small, whilst others will grow huge, and may well be split up to become small businesses that can grow again. Just like the mountaineer setting out from base camp, the gentle foothills will require very different skills, different clothing and a different pace from climbing the icy peaks.



THE SEVEN LIVES OF BUSINESSES

While each life-stage is partly a result of the business's age, size and performance, it is also distinguished by its structure and sophistication. Some companies will evolve rapidly and others slowly, some will leap through life. Some evolved companies will still be small, maybe virtual, whilst some large companies might still be quite primitive. You can probably think of a few.

Their challenges are different. Small businesses want to get noticed, capture a new market, gain customers, and ensure that they drive enough cash flow to survive, and hopefully thrive. Large companies have an equally tough challenge in seeking to remain innovative, find new markets and to take their organizations with them.

The objectives of each life-stage are different and, therefore, the approach is too. Unlike the natural world, this is rarely a natural evolution. It requires deliberate thought and desire, hard choices and decisive management. Moving from one phase to the next will require change – in strategy, people, activities, leadership and even ownership.

Some of the changes as companies seek to evolve will be painful.

Entrepreneurs love their small, chaotic, personal worlds. Small teams don't like being torn apart or having more structures and processes imposed on them. Large companies don't like having to make choices, to delete certain product lines, pull out of certain markets, make people redundant.

Yet we choose to evolve because each life-stage brings new opportunities for growth.

Additional investment allows the company to extend its offerings, recruit more people, launch new ventures. Clearer structures and processes improve focus and efficiency, giving people their own teams to run and markets to manage. New leaders bring valuable experience and fresh ideas, and often allow the founding entrepreneurs to focus their creativity, without the admin.

Growth brings its rewards too, and part of the skill is linking the right rewards to the growth model so that it encourages the positive, evolutionary behaviours that the organization needs. Ensuring that all employees, and even wider business partners, have a stake in the business is one effective way of ensuring that everybody focuses on the same goal, supports growth, and shares in the rewards.

	Create	Enter	Stabilize	Expand	Optimize	Extend	Evolve
Priorities	• Evaluate best market opportunities • Articulate business purpose and strategy • Develop initial concept for launch	• Building awareness and initial sales • Delivering on the promise • Maximizing impact of brand launch	• Consolidate and grow best customers • New strategy for secondary growth • Improve process efficiency	• Enter new markets and categories • Drive innovation and service delivery • Find more partners to extend reach	• Focus on best markets, customers • Manage/rationalize product portfolio • Fully exploit key business assets	• Extend growth into new markets • Drive strategic innovation • Venturing and new partnerships	• Evaluate options for exit and renewal • IPO, trade sale or break up • Or continue to next phase of growth
Challenges	• Getting the business set up • Developing an initial business plan • Securing start-up funding if needed	• Marketing on a limited budget • Limited resources, everyone hands on • Managing cashflow closely	• Getting beyond steady revenues • Tension between founders and staff • Retain customers and best people	• Managing complex, diverse activities • Maintain focus on best opportunities • Consider mergers and acquisitions	• Dispose of non-value creating areas • Simplifying internal structure, strategies • Transparent KPIs and management	• Rethink what is the core business • Drive fundamental change • Reenergize people and leaders	• Evaluate all options independently • Maximize value of business assets • Consider best form and timing of exit
Proposition	• Identifying first audience to target • Articulating brand and proposition • Developing initial product(s)/service(s)	• Build awareness of new brand • Use affinity and channel partners • Deliver initial product(s)/service(s)	• Identify new market and product options • New propositions for new segments • Partner with established brands	• International, multi-segmented CVPs • Portfolio of quality products/services • Licensing through third parties	• Rationalise portfolio of customers •Rationalise portfolio of products • Refresh brand and propositions	• Emerging markets and whitespaces • Innovation of business model • Customized solutions, channels	• Innovative brands and propositions • Strong customer relationships • Well protected rights and patents
Investment	• Expense of start-up and personal time • Cost of R&D and prototyping • Design of brand, website, materials	• Cost of marketing and sales • Cost of outsourcing back office	• Cost of new product development • Cost of outsourcing back office	• Cost of entering new markets • Recruit more people to support • Cost of loans to support growth	• Cost of brand and web refresh • Cost of databases and analytics	• Cost of significant business change • Cost of ventures and partnerships	• Cost of professional advice

CHALLENGES AT EACH BUSINESS LIFE-STAGE

The potential characteristics of each life-stage are illustrated in the table, although there will obviously be variations on the theme. Where is your business? Maybe different parts of it are at different stages, with your structure lagging behind your market ambitions, or your investments out of kilter with your strategic opportunities.

The life-stages flex between periods of rapid growth, where innovation and extension are important, followed by periods of consolidation where the organization has to regroup in order to build a new platform for another stage of growth. The focus and culture of the business will therefore differ by stage, and the challenges in moving to the next stage will be different each time.

Stage 1: 'Create' reflects the birth of a new business, driven with entrepreneurial ambition. The founders shape their ideas and establish the business. The focus will be on creativity, whilst big obstacles to growing to the next stage will include funding.

Stage 2: 'Enter' is about getting the business going, launching itself into markets, building awareness, delivering its services, and generating some income. The focus will be on building, whilst obstacles to evolving the business will often include the founders' own relentless passion.

Stage 3: 'Stabilize' seeks to bring some order to a small, probably fairly chaotic business. The founders might not notice, but others are struggling. The focus will be on consolidation, whilst the obstacles to growing will include learning to empower people.

Stage 4: 'Expand' marks a second phase of rapid growth, extending the business in new ways, reaching out to new products and extending the range. The focus is on innovation, whilst the obstacles to moving on will now include the resistance to more formal control.

Stage 5: 'Optimize' takes stock of all of this expansion to focus resources on the markets, products and customers that matter most. It may also involve stopping doing other things. The focus is on prioritization, whilst obstacles now include the bureaucracy that inevitably creeps in.

Stage 6: 'Extend' is back on the innovation track, looking for more strategic ways to innovate the business, shaping markets and business models. The focus is on strategic innovation, and the obstacle now is size, lacking the agility and single-mindedness of small business.

Stage 7: 'Evolve' is the alternative to death. There is no limit to how far a business can evolve, how high it can fly, the focus is on deciding where to go next – to sell, merge, break up, or keep extending into new domains, limited only by the imagination of its people.

Most companies die young. They should be able to live for 200 to 300 years according to Arie de Geus in *The Living Company*, yet few organizations survive this long, falling victim to blinkered strategies in changing worlds, or the inability to evolve as they grow.

Imagine the changes that a company like Kikkoman, the Japanese soy sauce company, has lived through, from the days as a family business on the banks of the Edo River to the global corporation of today. Consider the journeys of some of the world's oldest companies, together with the relative youth of some of the best known companies today:

THE LIVES OF BUSINESS LEADERS

Founded	Company	Sector	Country
578	Kongo Gumi	Construction	Japan
1288	Stora Enso	Paper	Finland
1385	Antinori	Wines	Italy
1526	Pietro Beretta	Guns	Italy
1623	Zildjian	Cymbals	Turkey
1630	Kikkoman	Soy sauce	Japan
1734	Taittinger	Champagne	France
1748	Villeroy & Boch	Tableware	Germany
1802	DuPont	Chemicals	USA
1853	Levi Strauss	Clothing	USA
1886	Coca-Cola	Soft drinks	USA
1892	GE	Electrical	USA
1975	Microsoft	Technology	USA
1977	Apple	Technology	USA
1998	Google	Technology	USA

Source: Centuries of Success, William O'Hara

Insight 1: CROCS
Fast growth by three men in a boat

The growth of Crocs is phenomenal by any measure. Not the rough skinned, wide jawed reptiles, but the slightly ugly, multicoloured variety that have taken the footwear world by storm.

Islas Mujeres, Mexico. 2002.

Three guys from Boulder, Colorado decide to go sailing. Lyndon Hanson, Scott Seamans and George Boedecker take off from their stressful jobs and head for the Caribbean. On arriving at their boat, they unpack their bags, including a pair of foam clogs that one of them found whilst in Canada.

As the days, waves and beers pass by, they are inspired to build a business around the funky, foam-made shoes with the Swiss-cheese perforations. They are incredibly comfortable, non-slip, lightweight, washable and never smell. The perfect boat shoe.

They need a name. 'Crocs' is chosen because crocodiles are tough and strong with no natural predators. Equally good in the land and water, they live for a very long time.

Fort Lauderdale, Florida. 2003.

The three friends are staggered by their astonishing success: $1.2 million sales in their first year, and they are still treating the business like a part-time job. They launch their shoes at the Fort Lauderdale boat show – but soon everyone from doctors to gardeners to waiters wants them.

They lease a warehouse in Florida, so that they can combine business and pleasure, but are struggling to cope with demand. Celebrities like Brad Pitt and Britney Spears adopt them. Kids adore them.

Crocs are not just functional but suddenly the height of fashion too.

Sydney, Australia. 2004.

Crocs are growing incredibly quickly with $13.5 million turnover by end of the second year, although with a small loss. Word of mouth continues to spread the desire for Crocs like wildfire.

Ron Snyder, a former college friend, has joined as CEO. He previously ran the global business of Flextronics and oversaw its growth from $3 billion to $16 billion in four years. He sees similar potential with Crocs.

Snyder decides to buy the Canadian company, Foam Creations, who make Crocs from a special 'closed-cell resin' called Croslite. In the past Crocs had basically distributed their products; now it has its own unique process, material, design and distribution.

Crocs are now ready for even faster and more profitable growth.

Beijing, China. 2005.

Revenue leaps to $108.6 million and profits to $17 million. The rubbery clogs and flip-flops can now be found in over 40 countries. The range and colours diversify too – and with prices ranging from $30 to $60 a pair, they are cheap enough for people to buy two, three or four pairs.

Strong branding and high profile sponsorships that link closely with target audiences help to raise curiosity, visibility and desire further – from baseball, football and motor racing, to the latest kids movies from Disney.

'Think bigger than you are' is a lesson Snyder brought with him. He registers Crocs as a trademark in countries around the world, and establishes manufacturing capability from Mexico to China to support still faster growth. However they are still struggling to keep up with demand.

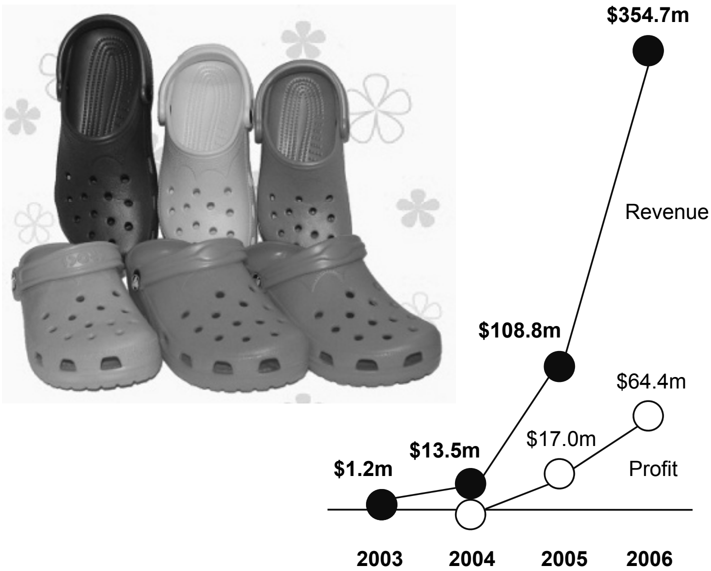
Wall Street, New York. 2006.

Now a global phenomenon, everybody wants Crocs. Shops sell out before new supplies arrive.

Sales are phenomenal too, selling 20 million pairs, and tripling revenue to $354.7 million and profit margins growing to 18%.

People love their Crocs. Jibbitz, for example, started as a tiny, home-made collection of clay and rhinestone that clipped onto the shoes and enabled people to customize them. It grew even faster than the shoe company, so much so that Crocs snapped up the kitchen company for $20 million.

Crocs goes public, with an IPO initially valuing the company at an eye-catching $1 billion, and grows rapidly on trading. Some say it is an outrageous valuation, the company is riding on a fashion trend that cannot last, and investors have been seduced by a funky brand. Only time will tell.



FAST, PROFITABLE GROWTH OF CROCS

Niwot, Colorado. 2007.

On the Lovemarks.com website, Crocs has rapidly become a popular choice with consumers in selecting their most loved brand. Rachel is a typical advocate:

> 'Absolutely the most comfortable shoes I've ever experienced. They soon adopted the shape of my feet, support my back, are so easy to take care of, and are created in the most detailed and beautiful rainbow of colours. One for every outfit.'

However, no brand can be loved by everyone:

> 'Oh nooooooo, I can't stand Crocs! Despite arguments that they might be comfortable – I think they look totally hideous. I wouldn't be seen dead wearing them.'

But as Scott Bedbury, the marketer behind Nike and Starbucks points out, 'a great brand polarizes people – it has attitude, it provokes people – some will love it, and others hate it.'

Back in Colorado, the three buddies have a whole boat load of ideas and innovations to develop, to further accelerate their growth. Sales continue to increase rapidly and profitably, and the market cap closes in on $5 billion. Not bad for a company less than five years old.

1.2 THE ENGINE OF VALUE CREATION
Revenue and profits are not enough, value is what matters

Growth is the imperative for almost every CEO. In the long term there is no option but to grow. Yes, you can improve profits through efficiency and optimization, and shrink to a smarter shape, but then it's about growth. We all want to do better this year than we did last year.

We typically measure growth in revenue – our sales turnover, product volumes. Of course, it feels good to sell more and more – but not if it's ultimately unprofitable. Sometimes, you will decide to sustain unprofitable sales in order to establish yourself in a market, but at some point it has to turn positive.

Continuing to sell unprofitably is a recipe for disaster. Yet lots of people do it, at least in parts of their business if not all. Finding the products, categories, segments and markets for profitable growth is therefore a priority – as is eliminating the unprofitable ones.

Similarly, stock markets work in a way that rewards companies that deliver beyond expectations. If you are a shareholder, then you expect a return significantly better than you would get it if you kept it securely in a long-term savings account. This is your basic requirement. You want a return more than this. Therefore, growth needs to be even more profitable and significant.

And it needs to be sustainable too. There are plenty of one-trick ponies. Any fool can discount the prices and sell lots. Any fool can take a huge loan, buy a competitor's business, and double revenue in the short term. But is that sustainable? Not often. This is why organic growth, growth driven by improving and extending your core business is what succeeds.

	% of companies	Market/book ratio
Outperformers on revenue growth or profitability	12.8	
Outperformers on revenue growth	2.8	1.9
Outperformers on profitability	9.2	3.0
Outperformers on both	0.8	4.1

Source: McKinsey Quarterly, 2007 (based on the 10 year performance across industry sectors)

Sustainable, profitable growth is incredibly elusive, yet research shows that companies that can outpace their rivals in terms of both growth and profitability achieve the best stock market performances. Revenue growth alone is not enough, it needs to profitable too.

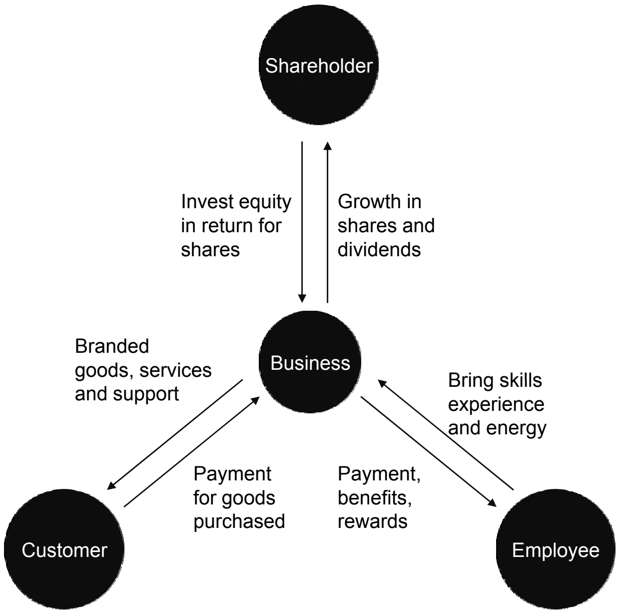
This is demonstrated by a recent McKinsey survey which found that only 0.8% of the companies researched were able to outperform their competitors in terms of both revenue and profit growth over a decade. Whilst 9.2% of companies delivered better profit performance compared to peers, only 0.8% of companies were able to deliver revenue growth too.

Most significantly, exploring the stock market performance of these companies over the same period (by compared their market value to their book value) showed that companies that can deliver growth in revenue and profitability deliver the best returns to shareholders.

Sustaining growth becomes a dynamic system.

An obsessive, single-minded approach to make as much as much money as quickly as possible for the business owners, be they founders or shareholders, is not a healthy approach. Employees will quickly become disenchanted with working hard for relatively low wages whilst the owners roll in their riches. Customers too want to see a constant stream of better, innovative solutions, delivered with high-quality service and support.

Business is a 'value exchange', creating value for many 'stakeholders' – each with a stake in the system through which they give something and get returns.



BUSINESS AS A VALUE EXCHANGE BETWEEN STAKEHOLDERS

Customers will pay more for great products and service, a brand they trust and a solution that best meets their needs. Employees give their time and effort, ideas and skills, in return for pay and other benefits. Shareholders invest in the business, in the belief that they will get a better return on their money from it than by investing elsewhere.

The value exchange requires balance. If any stakeholder feels that they are not getting a fair return for what they put in, then the whole system begins to falter. Customers don't feel that they are getting a good deal so go elsewhere, there are insufficient funds to pay employees so their productivity declines, and shareholders decide to take their funds elsewhere. Without a fair balance, the system will fail.

The value exchange is also dynamic because the expectations of each group continue to rise – customers want better solutions and lower prices, employees want salary rises and more benefits, and investors want better returns. Many other stakeholders also play an increasingly important role too – suppliers, business partners, governments, local communities and society in general.

Distributing a fair return to stakeholders can be done in two ways – by imaging a 'value cake' and how it should be shared between all those who contribute to the business success:

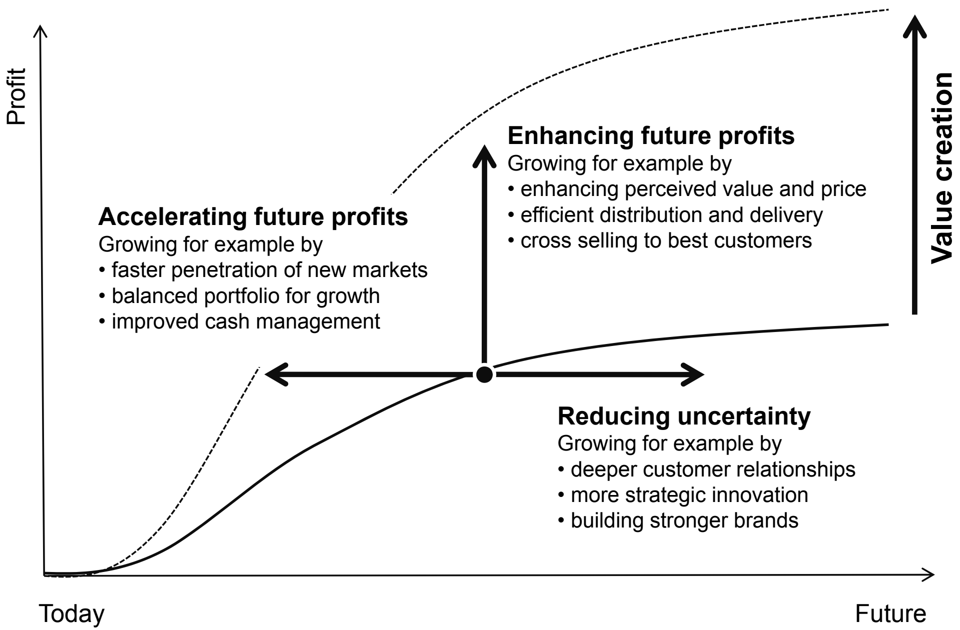
- The greedy shareholder will demand an ever-thicker slice of the same cake, to the disgust of everyone else who gets a smaller one.
- The wise shareholder recognizes that a smarter way to get a big piece is to 'grow' a bigger cake, where everyone else can have a big slice too.

Simple analogies aside, the ways in which companies are managed determine their sustainability and long-term success. The choice of how much dividend to return to shareholders, how much to give as bonuses, and how much to reinvest in the business, is an important one. What is indisputable is that companies must sustain profitable grow to create lasting value.

'Value' is an important word at this point.

'Economic value' reflects the sum of future profits that the company is likely to generate. More accurately, it is the net present value of this future performance, taking into account the certainty (i.e. risk) that it will actually be delivered.

Economic value reflects the future potential of the organization and is driven by the strategic choices, the healthy performance, and the investments made for future results. Virtually every action of the business will have a short- and longer-term impact, which should both be considered. Growing businesses in particular may need to favour the long term, even at the expense of short-term gains.



ECONOMIC VALUE, THE SUM OF LIKELY FUTURE PROFITS

Investors are therefore most interested in the future performance of the business – the markets you will enter, the products you are developing, and the strength of brands and relationships to ensure that these future activities will deliver profitable sales.

Investors also expect a return on their investment greater than they would receive from a safe investment (like a savings account or investing in low-risk bonds). We call this the cost of capital, and therefore need to include it in our thinking. They expect 'economic profit', i.e. operating profits minus the cost of capital (typically around 8–12% depending on the future certainty of your markets).

Whilst this is all a projection into the future, easily manipulated in the black box of the finance director, it is the basis on which businesses are judged, and on which decisions should be made.

Future potential, or economic profits and value, should therefore drive our strategic choices in business – which markets, products and customers to invest in. This should be a long-term behaviour, and ultimately should drive employee actions and performance. Short-term issues matter too, businesses needing to generate sufficient cash flow to survive; therefore it is a careful balance.

Look across your portfolio of businesses, brands, products or even customers. You will find some who ultimately 'create value' and other who 'destroy value.' They might all look good from a revenue perspective, or even an operating profit, and if this is how managers have been measured, they will be very happy. But if you look at the economic value of each, some might not be smiling so much.

Similarly, there is 'good' growth, and 'bad' growth. Seeking to sell more and more of a product that is economically unprofitable is futile, even if the revenue performance looks good. Entering a fast-growing market in which it will be difficult to deliver an economic profit is pointless too.

Growth is not easy, nor is growth obvious. Growth isn't something that just happens. It's not simply the output of doing business. It is more than a result. It needs to be managed – it needs a process and strategy too. There is ultimately only one way to deliver over the long term to shareholders. Sustained, profitable growth becomes the business lifeblood.

Insight 2: RED BULL
Entrepreneurial growth of 'liquid cocaine'

'Red Bull gives you wings'

It had been a long flight from Vienna to Bangkok, so Dietrich Mateschitz sat down in the hotel bar, definitely lacking any wings. He asked the Thai waitress what she would recommend to revive him. She laughed and suggested a glass of 'Krating Daeng' (the Thai for red bull) which was popular with Thai farmers, builders and truck drivers who wanted to combat mental and physical fatigue.

The drink, developed in 1962 by Chaleo Yoovidhya, now the CEO of TC Pharmaceutical, was based on Lipovitan, which had originally arrived from Japan. Tasting of citrus and herbs and containing twice the caffeine of a regular can of Coke, it was already a fast-growing drink throughout Asia.

Meteschitz found it a great cure for jet lag, although a little too sweet. As international marketing director of Blendax, a German toothpaste company, he was in town to agree a new licensing agreement with Chaleo. Instead, the two men talked about the potential of the energy drink.

In 1984 the two men started taking the Asian drink to a European audience, each investing $500,000 of their savings in Red Bull GmbH. Initial market testing was not good. The thin brown colour was seen as totally unappetizing, the 'sticking mouth' feeling and aftertaste were disgusting, and the concept of 'stimulates body and mind' was seen as irrelevant.

No product had ever tested quite so badly.

However Mateschitz, who had taken on the running of the business, was determined. For three years he lived with consumer abuse and endless quarrels with government health officials over the contents. 'The worst years of my life,' he would say later.

Eventually he threw away his textbooks and ignored convention. This was a drink that would invent a new category – a legal, yet cool stimulant. It looked and tasted like nothing before. Rather than compete against soft drinks, he priced it closer to designer alcohol drinks, 8–10 times more than Coke.

He launched the Austrian version of Red Bull in 1987. The drink was carbonated and less sweet than the original version and packaged in its distinctive 250ml can. Some markets, such as Germany, took as many as five years to overcome health concerns – although Mateschitz didn't always help by joking, 'I had to fly to Pamplona to source bulls' testicles', but he argued that the rumours never hurt.

One young Mexican drinker enthused:

> 'Red Bull is an outrageous drink. I love how it makes me feel always, and really gives me more energy. I drink it after exercise, when I'm out partying with friends, or when I'm working late. When I wake up in the morning and I find out I'm running late for class and I'm still kind of sleepy, I always drink a Red Bull and it keeps me going. I love Red Bull!'

His marketing campaigns were radical and provocative too, ranging from appearances in PlayStation games to Formula 1 motor racing sponsorship, 'The Art of the Can' competition to make sculptures out of empty cans and Red Bull Festival Air Days. The brand seeks to play a role in people's lives rather than just creating aspirational images, conveying the adrenalin-inducing personality.

The myth-building and controversy were all part of the plan, as Jeff Edwards suggested in his book about the growth of the business, *Liquid Cocaine*:

> 'Here is a product that's managed to acquire a reputation as an over-the-counter amphetamine, a surefire wild-times elixir, all the while squirming its way into bars as if it were the latest offering from Anheuser-Busch … a party drink, a stimulant, an aphro-

> disiac, a raver's 'smart drink' gone mainstream ... Red Bull has carefully and intentionally cultivated the mystery surrounding its products, the public has filled in the blanks with speculation and innuendo.'

Meanwhile Red Bull sells and sells.

Mateschitz, sitting in his team space overlooking Austria's Fuschl am See, can look back at his good fortune in taking the jet lag advice of the Thai waitress. He leads a 4000 person company that has not lost its entrepreneurial spirit, with little hierarchy and much 'organized chaos'. It is a caffeine-fuelled business on a mission, but with a simple will to win, rather than a mission statement.

Another Red Bull enthusiast, this time a Polish female, went even further:

> 'Red Bull is like a potion to me. I don't really care about the extra energy it is supposed to provide my body with. When I drink it I feel like Alice in Wonderland. I use it as a mood enhancer. It makes me feel better and different. For a few moments I can completely forget myself. And I love its taste and smell. It's not delicious, it's specific – and that's exactly the way the real "miracle liquid" should taste.'

By 2006, over three billion cans had been sold in 130 countries. Mateschitz has redefined the market for energy drinks and also made himself a $5 billion fortune. Chaleo, his Thai partner, has made even more, as the original Krating Daeng drink continues to grow across Asia.

1.3 PLATFORMS FOR ACCELERATING GROWTH
Incremental and innovative ways to grow your business

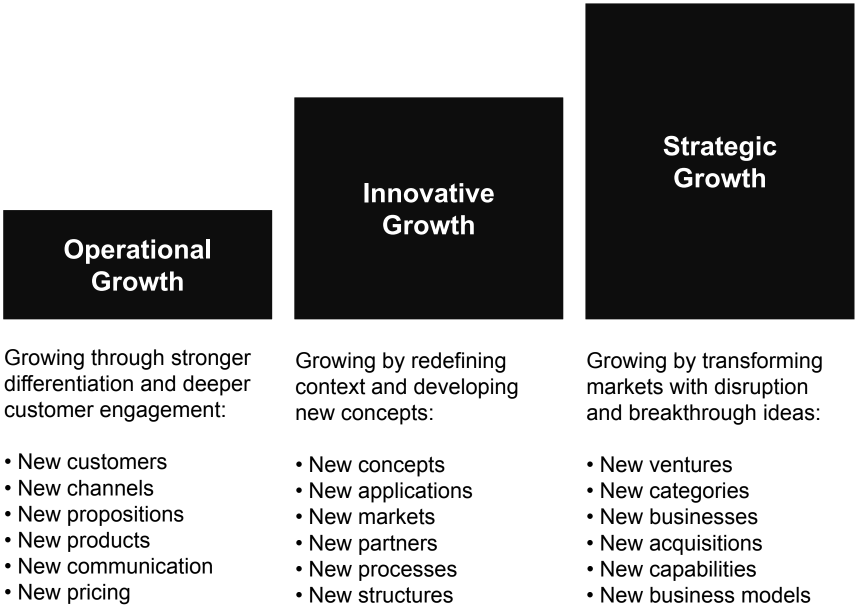
Whilst the options for growth are commonly grouped into organic and inorganic – internally and externally sourced growth – this distinction is much more blurred today.

Organic growth in the sense of 'building on what you've got' is usually the easiest and quickest, but it also delivers small increments of improvement. Of course this does not have to be the case – moving from a product-pushing to solution-selling model can quickly establish superior revenue, significantly greater profits, add differentiation to your offer and engage customers more deeply too. Boeing has found this, for example, when it started offering aircraft leasing and service-based contracts, as did IBM when it started offering business consulting solutions rather than just the technology.

Inorganic growth in the sense of 'acquiring something different' is most often seen in the form of business acquisitions, although they are often presented as friendlier mergers (accounting regulations dictate that one company should be the acquirer). Such transactions are fraught with dangers: whether or not they will work together and whether or not the organizations can extract the 'synergies', not just in terms of cost savings, but in terms of fusing capabilities and portfolios to do something more together than they could apart. The M&A troubles of the likes of Daimler and Chrysler, AOL and Time Warner, or HP and Compaq are well documented. Enormous sums of money and reputations are at risk.

Sometimes, of course, they do succeed – as in the coming together of P&G and Gillette – where there is clearly positive reasons to marry: complementary capabilities (P&G were scientists, Gillette were engineers), product portfolios (P&G were more about women's personal care, Gillette more about men), and market penetration (P&G were dominant in the large superstores of mature markets, whilst Gillette had greater distribution in the small shops and emerging markets). The results followed too. They learnt from each other, they fused their best bits and eliminated others, and real growth (in addition to their combined volumes) followed, as did improved profits and, most significantly, share price.

There are three broad platforms for growth. These should not be viewed as alternatives but as a range of opportunities from which the organization should select a number at each level. The platforms are distinguished by the time and effort required to deliver growth, and the risk and reward involved.



PLATFORMS FOR PROFITABLE, SUSTAINABLE GROWTH

The three 'growth platforms' are:

1 **Operational growth.** Doing more of what you do.

- Adding. Getting customers to buy more – Starbucks' broader range of food and accessories encourages larger and more regular purchases.
- Retaining. Retaining your best customers – Lexus focuses on personal service to retain customers for servicing and future renewals.
- Broadening. Engaging new customer segments – Coca-Cola reaches out to new customer segments with new reasons to drink and things to drink.

- Extending. Reaching further with new channels – Top Shop extends its reach to young people around the world through franchising and in-store partners.
- Globalizing. Entering new geographic markets – Zara is rapidly extending its store portfolio to every corner of the earth.
- Differentiating. Communicating a new proposition – Skoda revitalized its brand from 'old Communist rust-bucket' to 'solid cars with attitude'.
- Streamlining. Improving business efficiency – Delta fundamentally restructured its airline to reduce costs and improve efficiencies.

2 **Innovative growth.** Do what you do differently.

- Inventing. Developing new products and services – HSBC constantly seeks to develop new financial services for its many audiences.
- Reapplying. Creating new applications for products – Philips explores how its existing products and technologies can be used in new ways.
- Collaborating. Developing solutions with new partners – Disney constantly works with licensees to take its properties into new markets.
- Diversifying. Launching additional diffusion brands – Versace recognized that it needed secondary brands to reach different audiences.
- Concepting. Designing a new business model – Boeing redesigned its business model to focus on collaborative services.
- Sharing. Forming alliances to share resources – Cisco formed alliances with communication partners around the world.
- Partnering. Riding on an affinity partner's back – Samsung reaches out to new markets using partners with strong customer bases.

3 **Strategic growth.** Doing different things.

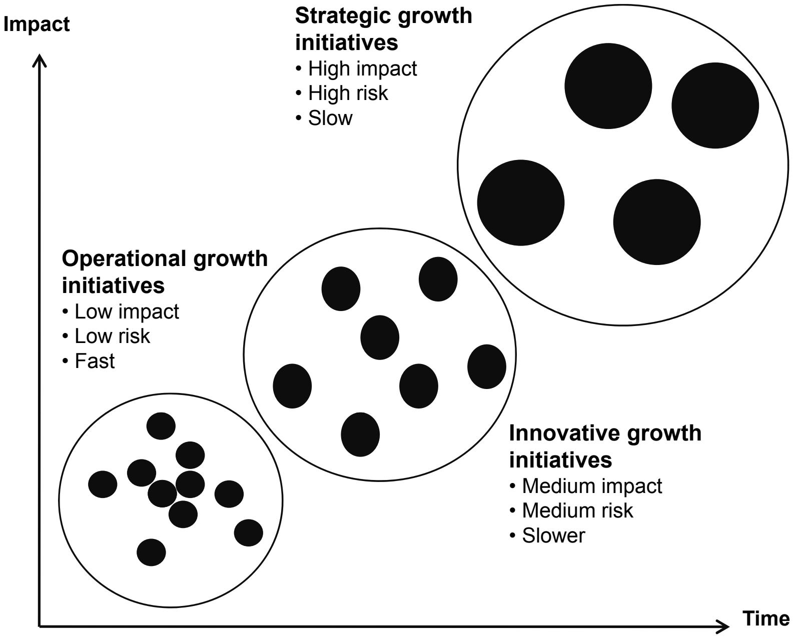
- Shaping. Shaping new markets in your vision – Apple fundamentally rethinks markets and how to shape them in its own vision.
- Focusing. Becoming a specialist in one area – ICI stripped down their business to focus on a core area.
- Extending. Diversifying into adjacent categories – Nike takes its brand to more and more different sports.
- Acquiring. Buying up your direct competitors – HP acquired Compaq in the hope that they could dominate PCs and printers.
- Connecting. Finding a complementary business – P&G tied up with Gillette to offer men and women the best they can get.
- Venturing. Creating new venture businesses – Google constantly experiments with new businesses by setting up ring-fenced teams.
- Moving. Shifting the business to new markets – IBM recognised that its heritage was not its future, and got out of the PC business.

Collectively these initiatives deliver a 'growth portfolio' – a collection of different initiatives that will deliver growth short- and long-term, with varying levels of effort and risk. How they are achieved depends on the organization, but most can turn to internal and external means, depending on what is right for the market and organization.

Ultimately, growth is very simple – how can you use the assets you have, including brands and relationships, and match them with the best market opportunities for profitable growth?

Matching assets and opportunities is a creative process, most simply about matching the strongest assets with the best opportunities, and then innovatively exploring how the different combinations might deliver growth.

The best initiatives, shaped and evaluated together, form a portfolio of initiatives: 'Operational' growth will typically deliver results fastest but with least impact. You want some of this to show you are delivering. 'Innovative' growth will take a little longer, but has the potential to make more difference. You want some of that too. 'Strategic' growth will be an even slower process, but the results will make people stand up and say 'Wow!' You definitely want some of that too.



A GROWTH PORTFOLIO BALANCES IMPACT, RISK AND TIME

Like any managed portfolio, the challenge is to create a balance between fairly simple 'no brainers' and more strategic 'big bets'. Growth is required to become a dedicated part of strategic planning, putting all the initiatives on the table, and evaluating their relative strengths and weakness.

Only that way does the portfolio emerge, and only that way can growth be managed.

Who should manage growth in the business?

Because growth is so often seen only as an output, a measure, rather than a process and manageable activity, it is usually left unmanaged, or comes under the responsibility of the CEO or finance director.

Growth needs dedicated management by people with the best growth mindset are those closest to the market opportunities, to the ability to drive innovation and sales. The most sensible 'chief growth officer' is often the 'commercial director'. Whilst this is still an emerging role in organisations, it is a role that can combine a focus on sales and marketing, pricing and profitability, today and tomorrow – and to champion growth across the whole business.

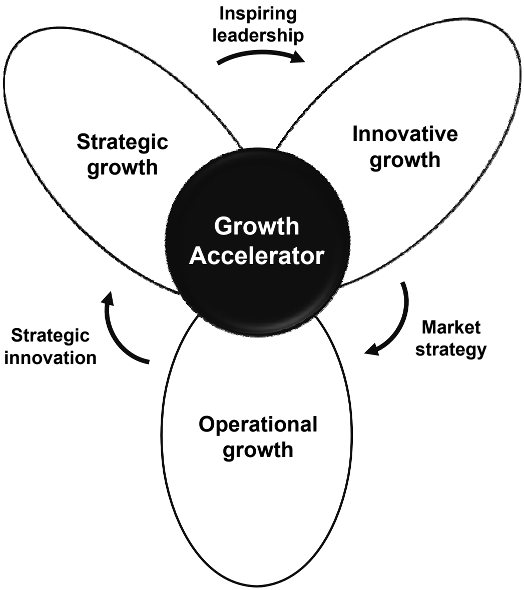
Acceleration

In the continuous search for more value creation, there are three ways to increase the economic value of the business, the likely future cash-flows – one is to improve the margins, another is to reduce the risk, whilst the best is to accelerate growth.

Accelerating growth might seem obvious – just work harder and it will happen sooner – however, businesses can only work at the pace of markets, even if they can influence them.

An effectively managed growth portfolio can be accelerated in different ways. Indeed the three growth platforms can be viewed like the propellers on a turbine. Rather than doing the easy things first, and then moving onto the more difficult challenges, acceleration can be achieved by doing them together.

The blades of the 'propeller' build a momentum and, like an aircraft which the propeller drives, the growth curve starts to rise exponentially.



ACCELERATING GROWTH THROUGH STRATEGY, INNOVATION AND LEADERSHIP

Examples of growth 'accelerators' include:

- Faster decisions – large organizations are notoriously slow to seize opportunities, particularly when growth only gets addressed within the planning cycles.
- Rapid development – reducing the time to market or new products, processes and systems by overlapping stages, outsourcing activities, in-market testing and evolving.

- Market sensing – having a quicker, faster sense of market changes, being able to sense and respond to changing customer needs, competitor actions and emerging markets.
- Dual segmenting – evaluating potential audiences not only in terms of their characteristics, motivations and value, but consideration of how this will evolve too.
- Slipstreaming – driving innovations so that product and service enhancements can be launched in parallel with, for instance, a strategic venture which may take longer to catch on.
- Internal creativity – engaging your people in the pursuit of growth, embracing their ideas and giving them the space and responsibility to grow their own parts of the business.
- Smart partnering – finding partners who can serve one need, for example in reaching a new segment, but from whom you could learn more, and work with in more ways too.
- Focusing resources – focusing on the markets and opportunities that matter most, doing fewer things better, with more resources and more commitment to the outcome.
- Organization agility – developing processes and culture that want and embrace continuous change rather than seeking consistency and sameness.
- Capital access – having faster and easier access to capital when it's needed, the mindset of venture capitalists being that they are ready to invest when they spot the right opportunity.
- Portfolio balance – ensuring that there is a good balance of strategic and operational initiatives underway, that investment and resources are suitably allocated.
- Dedicated management – making growth a clearly measured activity with dedicated responsibility and resources, focus and rewards.

The demands for growth will only get larger and faster. As global markets connect, as competition intensifies, as technology speeds up everything, and as customers get bored sooner, organizations will need to look at more significant and more accelerated growth strategies.

As Chris Zook says in *Unstoppable*:

> 'Over the next decades, two out of every three companies will face the challenge of their corporate lives: redefining their core businesses to stay competitive. Buffeted by ever-stiffening global competition, shifting global dynamics, and accelerating change, business leaders face an uncertain future. More and more, executives will realise that they must make fundamental changes in their companies' core to spur growth in the future – even as they continue to deliver the goods and services that keep their firms in business today.'

Insight 3: GE
Growing the world's most admired company

When Jeff Immelt became chairman and CEO in September 2001 he took control of an already finely tuned machine. Whilst GE had always had an innovative culture, from its famous Blue Book days of the Fifities, Jack Welch had instilled a formidable bottom line discipline on the business too. Immelt turned to two of GE's strengths – process and execution – and set out in pursuit of organic growth.

At GE's meeting of top managers at Baton Rouge in January 2006, Immelt told his leaders that if they continued to grow existing businesses at current rates, the company would not survive. 'Another decade of 4% growth and GE will cease to exist', he said. 'But if we can spur our growth rate without losing our productivity edge, GE will keep being the most admired company into the next century.

'We're now in a slow growth world. Things were different 25 years ago. Today's global markets are driven by innovation, and stock market premiums are based on companies who can generate their own growth.'

Immelt described further, in a recent interview with *Harvard Business Review*, his belief that a culture of productivity, and relying on expansion and acquisitions for growth, is not enough. Innovation must be at the heart of organic growth and of value creation.

He believes this approach will enable GE to deliver average revenue growth of around 8%, double what it was in the last decade (and two to three times faster than the world's economy is growing), and that this will deliver 10%+ earnings and 20% returns.

To grow faster than the global economy, GE has turned organic growth into a process rather than just a goal.

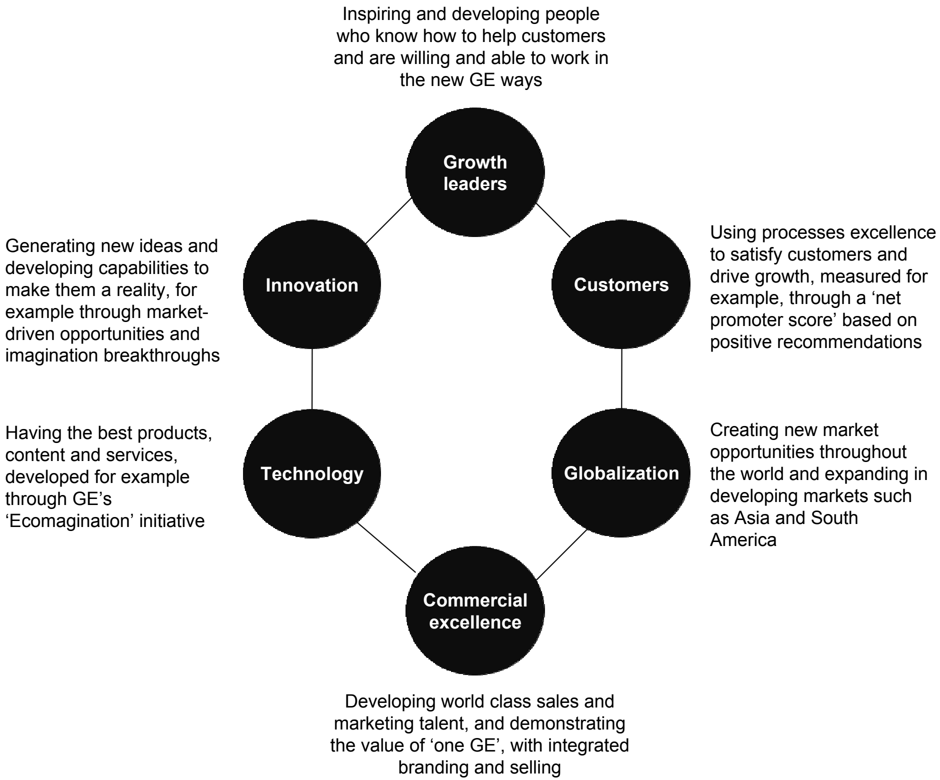
> 'If you run a big multinational, multi-business company like GE, and if you are trying to lead transformative change, then that objective has to be linked to hitting levers across all businesses, and it must keep that up over time.'

In a letter to all his shareholders, Immelt illustrated the challenge and opportunity:

> 'A reliable growth company must have the courage to invest and the discipline to deliver. It took courage to invest over $1 billion in a new jet engine, such as the GE90, with minimal returns for more than 10 years. Today, because of these investments, GE enjoys exceptional success in commercial aviation. The GE90 engine should generate $40 billion of revenue over the next 30 years.'

He went on to encourage investors to 'think about the company over 10+ years the way an owner would think about it', and to get a sense of the strategic investments that are required to build the business, as demonstrated by those that are now delivering results rather than focusing on short-term returns. 'We are builders of businesses … we have a team that is focused on building a company that has enduring value and makes the world a better place.'

GE is now focused on establishing the capabilities that will create and sustain this organic growth – most crucially, a focus on customers, innovation and globalization.



GE'S FRAMEWORK FOR PROFITABLE GROWTH

The GE 'Execute for Growth' process is mapped out as a circle, with no clear start or finish. It embraces new approaches and techniques, language and behaviour.

- *The 'Growth Playbook'* redefines the strategic planning process, recognizing that it should be a creative rather than financially-driven process, encouraging collaboration and rethinking, rather than incremental box-filling budgeting.
- *'Customer Dreaming Sessions'* bring together influential and creative people from across the industry to dream its future and through difference of perspective and opinion, to inspire new ideas and strategies.
- *'Imagination Breakthroughs'* focus senior management on the best ideas that will drive new revenue streams, irrelevant of where they come from.
- *'Innovation Labs'* support business strategy, product development and other initiatives with specialist resources and materials to drive and structure the innovation of products, businesses and markets.
- *'At the Customer, for the Customer'* is about opening up and transferring its own management approaches into customer companies to help them solve their own business problems, rather than just providing products and services
- *'CECOR Marketing Framework'* ensures that customers and market opportunities drive innovation and growth. It stands for 'calibrate, explore, create, organize and realize' strategic growth.
- *'Growth Traits'* are the attributes expected of future GE business leaders. There are five factors to get on in the company: external focus, clear thinking, imagination, inclusiveness and specialist expertise.

The new approach is not full of lengthy written proposals and PowerPoint slideshows; it's about people working together – people with diverse experiences, skills and perspectives (Immelt gets involved in around eight breakthrough sessions per month) – focusing on the best ideas and opportunities, capturing the essence of ideas in pictures and prototypes, communicated in short summaries and practical action.

The high-flying CEO reflects on his new, highly motivated, fast-growing GE:

> 'This is not a place for small times. Working at GE is the art of thinking and playing big. Our managers have to work cross function, region and company. And we have to be about big purposes.'

He reminds people that if they fail, the worst that can happen is that they will leave and find a bigger job somewhere else. But if you win at GE 'you get to be in the front seat of history, creating the future'.

The results are impressive. Since 2005, organic growth has averaged 8%, higher than competitors and twice GE's historical average. There is now a pipeline of 40 '$1 billion revenue products' to be introduced in coming years, and 60 'Imagination Breakthroughs' generating $25 billion, and many more on the way. Non-US revenue streams are now exceeding domestic figures and are predicted to grow at 15% annually, and more effective management of the installed base should generate decades of service-based growth.

Immelt, in an interview with CNN, believes that growth is ultimately a human challenge:

> 'Achieving this kind of growth depends on making it the personal mission of everyone here. If we want, we can cloak ourselves in the myth of the professional manager and hide any problem in the process flowchart. But if I want people to take more risks, solve bigger problems, and grow the business in a way that's never been done before, I have to make it personal.'