Viewpoint

Go for Growth: Five Paths to Profit and Success

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Grow or die – it's a call to arms spreading throughout America's corporations. Growth is appearing at the top of many management meeting agendas. It's prominently featured in glossy annual reports and confidential strategic plans. It's optimistically discussed with investment analysts. Its pros and cons are debated around the water cooler and on e-mail.

And none too soon. American business people have always preferred growth to contraction. It is an idea deep in the culture. Our best business heroes – Henry Ford, Thomas Watson, Steve Jobs, Akio Morito, Sam Walton – they are all people who have taken an idea, or a technique that embodied it, and grown it. They made something happen, where before there was nothing.

That is the kind of challenge that gets the adrenaline moving, the morale up. It's what makes it exciting to wake up in the morning, as eager again to come to the office as you were when you started your career. It's an excitement easily appreciated, whether it's driven by a personal vision or fueled by a team project whose goal is bigger than what any of its members could accomplish alone. It's a challenge sorely needed after a decade of dispiriting downsizing and making do with less.

In this article I look at the benefits of growth, the new rules for growth, and five ways a business can grow successfully. The path you choose will depend on the industry and market you are in and the capabilities of the employees you have attracted.

This article is excerpted from the book *Go for Growth! Five Paths to Profit and Success – Choose the Right One for You and Your Company*, by Robert Tomasko, published by John Wiley & Sons, 1996.

Build, Don't Destroy

The main *benefits of cost-cutting are past.* Operating from a low-cost position is something many in business have come to take for granted. It's a minimum requirement, an admission ticket to the competitive arena. It may help keep the wolf at bay, but cost reduction alone won't take a business anywhere. At some point, it also becomes very hard to generate any enthusiasm for the next round of downsizing.

Besides, downsizings inevitably lead to the loss of the wrong people. Bright, aggressive, self-confident and independent employees are usually among the first to accept voluntary severance or early retirement offers – leaving the company, unfortunately, with a higher percentage of people with exactly the opposite traits.

„Most of us have stopped bringing in young talent in adequate numbers to replace the talent that will be retiring over the next five to ten years," laments Rex Adams, a Mobil vice president. This is a real danger of the contraction mindset. Most downsizing is done very myopically. Today's cuts go to tomorrow's bottom line, but their positive impact can too easily be reversed by serious skill shortages lying just over the horizon.

Research conducted by the U.S. Census Bureau, which examined the performance of more than 100,000 plants during the past decade of downsizing, shows that companies increasing productivity *and* employment are the ones that do the best job growing value for their customers. These growth-oriented upsizers had more than five times as great a difference between their manufacturing cost and price they received as did those suffering from downsizing myopia. They weren't slackers in productivity growth either – it was also as high as those who relied exclusively on painful cutbacks to increase efficiency.

A Boston-based consulting firm considered the same issue from a different angle. It examined how well the stock market values growth, and it found that the chronic criticism Wall Street receives for being shortsighted may be a bum rap. After studying 800 public companies, the firm's researchers found that not all profit dollars are equally valued. Those generated by cost-cutting count only half as must as those derived from higher sales. The stock price of companies that achieved better-than-average earnings from better-than-average revenue growth rose twice as fast as those whose ahead-of-the-pack profits came from internal economies.

Breaking Free from Old Ways

To be fair, downsizing and its trendy cousin, reengineering, are not always the antithesis to growth. Sometimes they are its prerequisite. Like many unpleasant medicines, they hurt while curing. Moving to a business's next level of growth almost always requires pain for the gain. Established ways of transacting business must be put aside. A new perception of the marketplace, and how the company intends to thrive in it, must be acquired and then reflected in the business's structure. New ways of approaching customers, competitors, and products need to be integrated into the core of the business.

Many years ago I was an advisor to the President of the Burlington Northern Railroad. His main concern at that time was running the railroad efficiently, especially in minimizing the number of new locomotives he had to buy each year. He, like most railroaders of his time, hated trucks and truckers, a natural reaction given the competitive threat they posed.

What he, and many of the company's other executives, chose to ignore was that truckers were also customers of the railroad. At least some were – those that took advantage of the service the Burlington Northern and other railroads offered to have their trailers hauled over long distances on top of specially designed flat cars, piggyback style. Top management's ambivalence about the trucking industry showed in its lack of aggressiveness in marketing this service.

It was a time of upheaval for the industry as it went through congressionally-mandated deregulation. Rising to meet the challenge at Burlington Northern was Bill Greenwood, a bright, aggressive, team-oriented middle manager buried in the company's marketing department. He was given the authority to form an intermodal business unit and from this obscure power base took on every assumption the railroad's executives had about truckers being a necessary evil. Looking outside the traditional boundaries of the industry, it was clear to Bill that deregulation's new pricing freedom would encourage many of Burlington Northern's customers to move their goods out of railroad box cars and into containers and trailer trucks. He saw this as a great opportunity for the railroad to grow its intermodal business.

Greenwood assembled a team of six like-minded people from across the company's functional fiefdoms and from outside the industry. They focused middle and senior managers' attention on the opportunities of forming alliances with truckers and developed blueprints for constructing 22 intermodal hubs at points where Burlington Northern's freight tracks intersected with the most heavily trafficked interstate highways. They scoured the railroad looking for places to cut costs and raise funds to build the hubs, then they hired ex-truckers to run them. It didn't happen overnight, but the intermodal concept was fantastically successful. Burlington Northern became the nation's number one intermodal carrier and a new billion dollar business was built in less than 10 years. Bill Greenwood became the railroad's chief operating officer.

Managing as if the Future Really Mattered

The future is what growth is all about. Industry has worked overtime in the last decade to earn more money by being more productive. From here on, for many of us, earnings growth is going to have to come from revenue growth.

In the long run, growing profits by cutting people and costs is, by definition, a dead end. It is even self-defeating. As a company becomes better and better at cutting, it eventually runs out of things to trim.

If managers lack a clear understanding of what really creates value for their customers, both today's and tomorrow's, they may find themselves in a dangerous situation. They can fall into the trap of mindlessly lopping off expenses, all the time strangling the business's ability to generate new revenue.

Achieving growth objectives requires more than the right plan, analytic technique, or consultant. It requires a skillful blend of *strategy, organization,* and *people.* It requires *a strategic path* that connects the demands of the marketplace with the inner world of the company. There's more than one way a business can grow; there's more than one way a company can deploy its talent. In a given situation, some paths are more promising than others.

It requires an *organization* that focuses its people's attention on the growth issues that matter most to the business's success. This sounds simple, but the net result of the way most of today's corporations are organized is a blurred focus, a sense of distraction on the part of many of those the business depends on to be alert to carry out its plans. Most corporate structures are monuments to past successes, not power bases for future growth.

Finally, it requires a careful match between *the employees' capabilities and the work at hand.* Too many businesses are like the shipwrecked sailor who attempted to cross a rough ocean with a crew that had never left coastal waters before.

Understanding Growth

Dealing with the high-stake risks that accompany expansion strategies requires a very careful understanding of the real nature of business growth. Many seasoned executives have outmoded views of how to grow a business. Simplistic solutions such as „investing in R&D," „hiring more salespeople," or „increasing capacity" are seldom as effective as they once were. And many junior managers and employees have never had first-hand experience in organizations that were doing anything but contracting.

The old truths about growth just don't hold anymore. Exhibit 1 illustrates how things have changed. There is a strong common thread behind these new rules for growth: success goes to those who customize. Rewards will flow to those best able to match their game plan, their strategy, with the specifics of their competitive situation. There is no one path to growth appropriate for every company. One size does not fit all.

This may sound like „Common Sense 101," but considering the rapid spread of management fads, many in business still seem to act as if this is true. The fear of being left behind is strong in Corporate America. But it is one that masters of the new rules of growth have overcome. Resist it! Follow your common sense. Identify the particular path to growth best for your business.

Five Paths to Growth

The key to successful customization lies in matching the company's organization with its growth plan. Defining the most common competitive areas and what it takes – organizationally – to prevail in each is the purpose of *Go for Growth!* There are five ways a business can grow successfully.

Exhibit 1

Five Myths of Growth vs. New Rules for Growth

Five Myths of Growth

• *A rising tide lifts all boats-an expanding economy drives the growth of all the businesses in it*. This might have been true in the years after World War II, when a pent up consumer demand from war rationing was released, and few countries could compete with America's production capabilities. Today, fierce competition comes from all over the world and markets are much more fragmented than in the past.

• *Small, entrepreneurial companies in fast-growing markets will provide the lion's share of future economic growth*. Studies show that most growth in sales, employment, and new products come from established medium to large companies operating in mature industries. Start-up ventures that really make it don't stay small for long. However, most small companies stay small.

• *Growing a business means making it bigger*. Managers realize that there are time gaps between when new people are hired or new technology is licensed and when a company sees growth in revenues, etc. Growth that comes too fast can come with undesirable side effects, such as badly considered investments, profitless products, and shabby business practices.

• *If a company grows, its competitors must shrink* . Today, a business's future is much more linked to that of its competitors' than it may want to admit. And cooperating with suppliers to deliver the greatest value to the customer will pay off much more than coercing suppliers to just minimize their prices.

• *Success begets more success*. Just look at some of the giants that have stumbled: IBM, Sears & Roebuck. Some of the unwanted byproducts of growth-unwise investments, excess staffing, and "we can do no wrong" smugness-can halt growth in the future.

New Rules for Growth

• *The only real growth opportunities are those you find yourself.* Some companies are able to build growth regardless of how well or badly their industries are doing in general. These successful companies are able to find the strategy, people, and ideas they need.

• *Look where others aren't.* Fortune magazine recently published a list of America's 100 Fastest Growing Companies-the top growing company sells used merchandise (computers, clothing, musical instruments). Few other entrepreneurs have considered stealing market share from the Salvation Army, but that's the kind of imagination it takes to find growth in increasingly maturing, fragmented markets.

• *Make your business better, not just bigger*. Don't confuse growth with size. Peter Drucker warns, "The idea that growth is by itself a goal is altogether a delusion." He believes the right goal is to get better. Or, as Peter Senge says, "Today's problems come from yesterday's solutions." For instance, out-of-control pollution and marginal rates of return may be nature's way of saying slow down.

• *Assist your rivals to make the industry bigger*. For example, Burlington Northern's willingness to offer long-distance piggyback service to truckers it competes with generated new business for both industries.

• *Find the seeds of growth in your failures*. Polaroid's CEO Edwin Land believed "A mistake is an event, the full benefit of which has not yet been turned to your advantage." Polaroid, Levi Strauss, and Chrysler have all examined their failures and found clues to help them rethink their targets and assumptions and find new ways to grow.

Game Players. These companies follow the conventional wisdom of seeking out marketplace requirements, developing products that address customer needs, carefully producing them, aggressively promoting and selling, and providing flawless customer service and support thereafter. These straightforward, tough-minded businesses excel at grabbing market share. They know well the rules of competition. They know how to use them to their advantage. They know how to play the game, and they play to win. They take a given situation and make it grow. Examples are Marriott, Procter & Gamble, Starbucks, and Toyota.

Rule Breakers. Other businesses thrive by breaking the rules, by changing the basis of competition. They may be aware of the rules, they are just better at getting ahead by ignoring them, or upsetting them in a way that plays to their particular strengths. These business rebels cultivate their inventiveness. They enjoy being pioneers – they must, because they really don't know any other way to behave. They do not set out to meet existing customer expectations but grow by creating new ones. MCI in the early 1980s fit this mold. So did Federal Express in its start-up days a decade earlier. Apple Computers became a Rule Breaker in the early 1980s when it defied the conventional wisdom that said computers had to be big and difficult to run and pioneered the first personal computer machines. Today, Southwest Airlines and Silicon Graphics are Rule Breakers.

Rule Makers. Success often breeds greater success. Some market share acquirers eventually manage to out-compete all rivals. And a few pioneers make such better mousetraps that customers wait in long lines to buy them. These businesses eventually find themselves in the enviable position of defining the industry standards. They dominate their markets and organize their resources and talents to protect their competitive position. These include the IBM of the '70s, and today's Disney, Microsoft, and Wal-Mart. They don't just play by the rules, they are the Rule Makers.

Specialists. Although many companies may compete – and find growth opportunities – in an industry, there is room for only a few such standard setters or rule makers. Some businesses compete very successfully as Specialists, serving only a particular type of customer or making a very customized product. In their often narrowly defined domains, they frequently are market leaders, though they seldom attempt to dominate an entire industry. Consider AMP, star of the connectors segment of the electronics industry, or Midwest Express, king of the Milwaukee airport. Specialists include NordicTrack, Rolex, and Union Carbide.

Improvisers. Other companies may lack focus, but they make up for it with speed, cunning, and flexibility. They are Improvisers, and have a special knack for shifting their strategies to meet the needs of the market. They survive and sometimes thrive, by rolling with the punches. They surface in turbulent industries, like telecommunications. Managers of these companies know how to live in the moment and focus on specific, immediate goals, doing whatever it takes to achieve them. Improvisers include AT&T, Kodak, Matsushita, Prodigy, and most emerging businesses in the former Soviet Union. (Brazilians are probably the world's champion Improvisers, having dealt with roller coaster inflation, loss of protected domestic markets, and the social challenges of high population growth.)

These are not static categories. In its relatively brief history, Apple Computer has evolved from an upstart Rule Breaker into a multibillion dollar Game Player and is now searching for its future as an Improviser. Kodak was once a Game Player and is now an Improviser, taking new technology to market. And not every business fits neatly into one of these categories. Some are hybrids.

For example, Xerox has worked hard (and still is) to combine the Game Player (its traditional copier business) and the Rule Breaker (the stream of innovative product ideas that flow from its famed Palo Alto Research Center).

One type of company is not inherently better than any other. Each growth type has a distinct personality, corporate character, and core competence. Changing the basis of competition (the hallmark of a Rule Breaker) requires knowing how to make innovation pay off – a different set of skills from those behind achieving and holding onto a dominant market position (a Rule Maker's forte). Game Players are skillfull marketers and salespeople, while focused Specialists are highly savvy about their technologies and how to use them to benefit their customer segment. Improvisers manage to stay alive in turbulent industries where pure survival is, itself, a major accomplishment.

There is no best way to organize and manage a business. But, for a given situation, some ways are much better than others. And, as the marketplace and competition change, a company's structure and management practices must also evolve. For instance, sustained growth for most Rule Breakers requires an ability to transform themselves into something else.

Which Are You?

To get real value from these characterizations of growth strategies, it is necessary to do a good job at diagnosis. All good diagnosticians start out with a conceptual framework that helps sort out their observations. They keep their eyes open for patterns, common themes, events, or behaviors that seem to be occurring in tandem. They match these with similar „packages“ they have seen in other situations, and relate all this back to some of the „standard“ models. The point is not to stereotype a situation but to raise productive questions about it.

Changing Leadership Without Changing Leadership

Changing leadership at the top is a drastic remedy to slow growth stagnation. It's also one fraught with many perils of its own. A better solution may be for a business's managers to light a fire under their chief executive. All it takes is a leader with enough self-confidence to be able to listen to their concerns, or maybe be bold enough to regularly ask what's on their minds. It also takes followers with the courage to speak their minds without fear of being seen as disloyal. A rare combination? Perhaps, but one that when present can quickly galvanize major change.

Has your boss ever asked you to tell him what he was doing wrong? If you dropped in on a recent meeting of Emerson Electric Company's 15 most senior managers, you would have heard CEO Chuck Knight do just that.

Emerson makes a lot of mundane electrical products: garbage disposals, pressure gauges, refrigerator compressors, and power tools. But they are not a mundane company. Emerson is one of the few *In Search of Excellence* companies whose performance would warrant a place in the book's sequel. *They've had an unbroken string of 36 years of increased earnings.* This rare track record stands despite Emerson being in global markets so body contested that customers haven't allowed significant price increases in over 10 years. In short, Emerson is one of America's productivity superstars. And Chuck Knight's forceful leadership is one of the chief reasons behind its success.

When Knight asks his managers for criticism, they don't hold back. One day they told him that while Emerson was already more productive than its Japanese competitors, further gains from cost reduction would be marginal at best. While they felt pride in profit margins far higher than the industry average, revenue growth was stalling – stalling because Knight was directing all their attention to the bottom line, and that was wrong.

Knight quickly got the message. No laggard in the vision department (he started worrying about overseas competitors nearly a decade before most U.S. manufacturers), Knight and his management team quickly realized that productivity was yesterday's battle and soon after announced a companywide top-line growth program. They are now investing in new products, geographic expansion, joint ventures, and acquisitions. They are shifting their organization from Specialist to Game Player.

Good customizers are good diagnosticians. They start where they are, not where they want to be, and begin by asking questions about their company and their industry. These companies and their leaders don't try to force-fit themselves into whatever management solution is being touted as the moment's hottest. They don't necessarily try to turn their businesses into one of these five types of competitors. These categories are starting points for planning, not final goals.

In my book, I take a detailed look at these five growth paths – their strengths and weaknesses, how they work, in what markets they work best, what to watch out for, what type of leadership and organization is required, etc.

Maintaining Growth

Determining growth for each of these categories requires different measurement programs. For example, growth in size can be counterproductive for Improvisers, some of the most successful of which have cut revenues. And large sales increases can give false comfort to a Game Player if its peers are enjoying even larger revenue growth.

It's important to keep an eye on the growth chart and watch for warning signs. External and internal situations can stop a company's growth at any time. Oftentimes, it's success itself that leads to failure – through overconfidence, tunnel vision, egocentricity, or inflexibility. Continued growth may mean moving from one growth path to another – or blending several paths – and requires skill at changing course. The type of organization you choose is the vehicle for your business's growth ambitions.

Robert Tomasko, author of Go for Growth, *has also written* Rethinking the Corporation: The Architecture of Change *and* Downsizing: Reshaping the Corporation for the Future. *A former Arthur D. Little management consultant, he has spoken about his books to business audiences on five continents.*