

Staircases to growth

With revenue increases of 25 percent a year, how do the world's best growth companies do it?

A few steps at a time, each bringing options and new capabilities

No formulas, just astute bundling of competences, skills, assets, and relationships

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ONE THING ABOUT GROWTH IS CLEAR: the literature touting its importance keeps growing, and growing, and growing. What is less clear – and often needlessly obfuscated in management jargon – is *how* companies grow. Take the tricky, potentially paralyzing, dilemma that confronts most senior executives contemplating growth. On the one hand there exists a chasm between their current inventory of institutional capabilities and those required to achieve their growth aspirations; on the other, taking a discontinuous, “bet-the-company” leap could send the company barreling down a deep and dangerous crevice, ending in the thud of extinction.

To provide some timely, practical advice on how companies can grow, we examined 40 of the world's leading growth companies to find out how they approach, and more important, implement growth strategies (see the boxed insert, “About the research base” and Exhibit 1). These companies – in industries from basic materials to high technology based throughout Europe, North America, and Asia – clearly know how to grow: they average 25 percent compound annual growth in sales and 32 percent in shareholder returns (from dividends and capital gains). Their response to the question “How do I get from here to

We would like to acknowledge the contribution of the McKinsey Growth Team to the ideas in this article. The team included Rajan Anandan, Anna Aquilina, Scott Berg, Wulf Böttger, Jeff Chan, Angus Dawson, Andrew Grant, Sallie Honeychurch, Aaron Mobarak, Annette Quay, Hugo Sarrazin, Houston Spencer, Stefanie Teichmann, and Bay Warburton.

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Retrospective performance of a sample of great growers

	Company Industry	Country of origin	Growth period	Sales (CAGR%)	Total returns to shareholders (CAGR%)
Basic materials	Arvind Mills Denim manufacturing – world's 5th largest	India	1988–95	25	95
	Barrick Gold Gold mining – world's 3rd largest	Canada	1983–95	46	32
	Consolidated Paper Coated printing paper	US	1980–95	8	14
	CRH Building materials	Ireland	1972–95	19	17
	Great Lakes Chemicals Specialty chemicals	US	1977–95	22	21
	Jefferson Smurfit Paper and packaging	Ireland	1973–95	25	24
Consumer goods	ConAgra Packaged food	US	1977–94	24	29
	Coca-Cola Amatil Beverages, soft drinks	Australia	1985–96	18*	18
	Frito-Lay Snack chip division of Pepsico	US	1985–95	11	NA
	Gillette Branded consumer products	US	1985–95	11	31
	Hindustan Lever Consumer products, part-owned by Unilever	India	1990–95	22	~50
	Sara Lee Diversified branded packaged goods	US	1977–95	10	22
	Fila Sportswear and casual apparel	Italy	1988–95	50	90 [†]
Diversified	Hutchison Whampoa Globally diversified conglomerate	Hong Kong	1986–95	19	25
	Lend Lease Property and financial services	Australia	1980–95	9	21
	Samsung Highly diversified conglomerate – largest	Korea	1975–95	30	NA
Energy	Enron Gas and IPP	US	1988–95	7	27
	Burmah Castrol Specialized lubricants	UK	1986–95	7	15
	Newfield Exploration Upstream oil and gas	US	1991–95	75	24
	Tejas Gas Natural gas pipelines	US	1988–95	55	27

Note: In addition to our case research on the companies listed, we have also examined selected aspects of the impressive performance histories of Columbia/HCA, The Home Depot, and Wells Fargo.

there” would typically be “not by big bold leaps but by a series of measured steps.” Each step makes money in its own right; each is a step up in that it adds new institutional skills that better prepare the company to open up – and take advantage of – opportunities; and each is a step roughly in the direction of a broader vision of where the company wishes to be.

When these companies look back at what they have achieved, they see not steps zigzagging all over the place but a distinctive pattern or “footprint” in the

Retrospective performance of a sample of great growers

	Company Industry	Country of origin	Growth period	Sales (CAGR%)	Total returns to shareholders (CAGR%)
Entertainment	Bertelsmann AG Publishing and media	Germany	1986–95	11	NA
	Disney Films, theme parks, diversified entertainment	US	1984–94	20	32
	Village Roadshow Cinema operation, diversified entertainment	Australia	1989–95	62	51*
Financial institutions	State Street Boston Investment custodial services	US	1982–95	16	28
	Charles Schwab Discount brokerage house	US	1987–95	18	48
	Capital One Credit cards	US	1990–95	52	NA
	GE Capital Financing and leasing	US	1980–95	20	NA
Healthcare	Johnson & Johnson Diversified healthcare products	US	1977–95	11	17
Hi-tech	Acer PC manufacturing – world's 8th largest	Taiwan	1990–95	33	31
	Lotus Software development	US	1984–94	30	13
	Kyocera Hi-tech ceramics	Japan	1980–95	11	12
	Thermo Electron Diversified hi-tech products	US	1985–95	23	33
	SAP AG Software development	Germany	1988–95	41	53
	Softbank PC magazine publishing and software distribution	Japan	1991–96	35	61*
	Nokia Telecommunications technology	Finland	1991–95	24	82
Manufacturing	Bombardier Diversified manufacturing, incl. snowmobiles	Canada	1985–95	28	37
	Dover Diversified industrial products	US	1977–95	13	18
	Federal Signal Signs and signals, specialized vehicles	US	1977–95	13	25
	Illinois Tool Works Specialized industrial components	US	1985–95	19	23
Retail	7-Eleven Japan Convenience stores	Japan	1980–95	17	28
	Average			25	34

* Beverage division

* Since initial public offering

form of a staircase of manageable steps. While few – if any – single steps are dramatic in and of themselves, linking them together as a staircase of sequential growth achieves results that definitely are. None of these companies will say that, looking forward, they had perfect foresight of where the steps would lead. On the other hand they will say that each time they climbed a few they felt they had institutionalized a new set of capabilities, created new business options, and carved a competitive position for themselves that was beyond their reach when they stood at the bottom of the staircase.

STAIRCASES TO GROWTH

The staircase approach of continuously compounding skills and options is consistent with the competitive reality of most industries. The competitive landscape is changing so rapidly that it is impossible to predict paths several years ahead. Building a staircase explicitly recognizes that the appropriate strategy for any company depends on where it is today and on the state of the world down the road. The best a company can do under these circumstances is to build appropriate capabilities and create strategic options and opportunities without pre-empting or constraining future flexibility.

Staircase of initiatives

Successful growers adopt a bifocal perspective which emphasizes both near term and long term: vision and tactics. Even though they plan within a clear strategy, they are not slaves to a mechanistic process for projecting a medium-term budget. Many low-growth companies are.

The focus on near-term steps takes advantage of the fact that, each time a company builds new skills, new opportunities open up. It means managers are able to move fast enough to exploit opportunities early, before competitors move in or conditions change. It also encourages managers to behave as entrepreneurs rather than bureaucrats, avoiding excessive deliberation and “paralysis by analysis.” This does not mean they act imprudently but, simply, that they act.

While great growers are focused on immediate steps, they are not capricious. They act with informed opportunism toward a clear vision of the kind of company they are building. The Walt Disney Company (Disney), for example, requires its groups to articulate five-, ten-, and fifteen-year directional plans. Enron, the Texas-based gas company, moves quickly to maximize

ABOUT THE RESEARCH BASE

The Growth Initiative is one of five global taskforces McKinsey has launched in the past year to undertake applied cross-functional research and development. The initiative supplements McKinsey's continuing R&D programs in specific industries (financial institutions and energy, for example), functions (including organization and operations), and geographies (China is one). The aim is to develop distinctive and practical perspectives that help our clients increase profitability.

The research is based on academic thinking, practical insights from clients, and detailed case studies of 40 successful growth companies. The case studies involve reviews of company information, annual reports, SEC filings, newspaper and magazine articles and books, and, in the majority of the cases, interviews with a cross-section of managers. The case studies of success have been supplemented by 15 cases of growth failures.

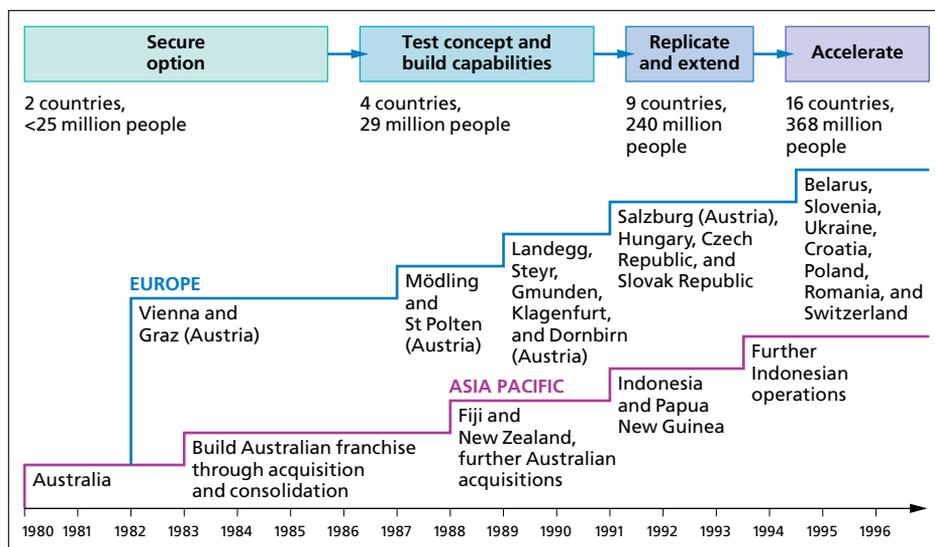
opportunities for its rapidly evolving gas businesses – originally toward its vision of becoming “the world’s first gas major,” and now with the aim of “creating energy solutions worldwide.”

To achieve their aspirations, companies like these use a similar pattern over and over. The first step secures an option on an opportunity. If it shows promise, next steps test the concept further and help accumulate the confidence and skills for more steps. After a few years the concept is replicated and extended as the strategy gains momentum. Later, replication is accelerated to take full advantage of the successful formula.

Coca-Cola Amatil (CCA) is a good example of a company that has bootstrapped itself to growth in this way (Exhibit 2). Now one of Coca-Cola’s

Exhibit 2

Coca Cola Amatil’s staircase



flagship bottlers, in 1980 CCA was a diversified Australian conglomerate with a few small Australian Coke bottling franchises. In 1982, it bought bottling franchises in Vienna and Graz in Austria – a small step, but one that took the company into Europe. Over the next few years, CCA continued to build its Australian base by acquiring adjacent regional franchises, while divesting its interests in other businesses. By the mid-1980s, the company was in two countries, with a potential market of 25 million consumers.

Having learned about the Austrian market from Vienna and Graz, and about the benefits of consolidation from its Australian acquisitions, CCA decided to go further. Between 1987 and 1991, it bought eight contiguous Austrian franchises, consolidating operations and achieving economies of scale. In 1988, it stepped into two countries adjoining its home market – Fiji and New

Zealand – and continued to consolidate Australian regional franchises. By 1991, this put CCA in four countries, exposed to 29 million people.

Each step built CCA's skills and confidence, and strengthened its reputation in The Coca-Cola Company's eyes. All three became critical as CCA moved into the next stage of growth, extending its formula into other adjoining – but undeveloped – markets: Hungary and the Czech and Slovak Republics, and Indonesia and Papua New Guinea. Lacking modern production, distribution, and marketing skills, and with low per capita consumption, these markets offered tremendous potential.

By 1994 – now in nine countries, with 250 million consumers – CCA began moving into more and more contiguous markets: Belarus, Slovenia, Ukraine, Croatia, Switzerland, Poland, Romania, and new regions of Indonesia. In all, CCA is now in 16 countries, with a total potential market of 368 million people.

Enron has followed a similar model. In 1985 the company identified the potential in independent private power generation (IPP), but its capability was limited to some gas reserves, a pipeline network, and conventional gas contracting skills. Enron secured an option in IPP by acquiring the rights to

Successful growers adopt a bifocal perspective which emphasizes both near term and long term: vision and tactics

operate a small, gas-fired cogeneration plant in Texas in 1986. The company built a bigger plant in Texas the following year. Confident the concept was valid, it undertook three more IPP ventures in other American states. In 1990–91, the company took its first truly big step by developing Teeside in the UK, the

world's largest combined-cycle gas turbine plant. With its international reputation cemented by the project, and with skilled specialists on its staff, Enron expanded into India, Indonesia, Germany, China, Guatemala, and the Philippines – becoming a worldwide force in IPP.

Neither CCA nor Enron relied on huge “bet-the-company” gambles to create growth. Each step was a manageable investment that built on established capabilities and offered the potential to add new ones. Sometimes, however, it may be necessary to make large investments and stretch the company in order to preempt competitors – in scale-intensive businesses, for example. This was the case with News Corporation's BSkyB satellite television network in the UK and with Li Ka Shing's similar venture, StarTV, in Asia. Usually, however, the staircase approach enables a company to avoid such risks.

The record of successful growers makes the idea of building staircases appealing. But when you are at the bottom of your staircase, how do you begin? The constraints can seem unbreachable if you believe your opportunities are

limited and your skills poor. The companies in our sample teach valuable lessons about how to view opportunities and abilities in order to break through these perceived constraints.

The opportunity pipeline

Many executives feel nervous about their ability to grow simply because they do not see many opportunities; neither do they see their companies generating profitable growth ideas. Their managers often tell them that markets are mature, core franchises under threat, and all paths to growth restricted.

Much of the growth debate fails to address how to overcome these perceived limitations. Instead, advice focuses on one strategic option or another and claims that any company that adheres to a single path will grow. One view talks about product innovation, another about stepping out into emerging growth industries, another about globalization. This approach is reminiscent of the proverbial boy with a hammer, who runs around looking for things to hit with it. Each path is a legitimate hammer, but not every company is a nail, and the hammer may not break the shackles a company feels.

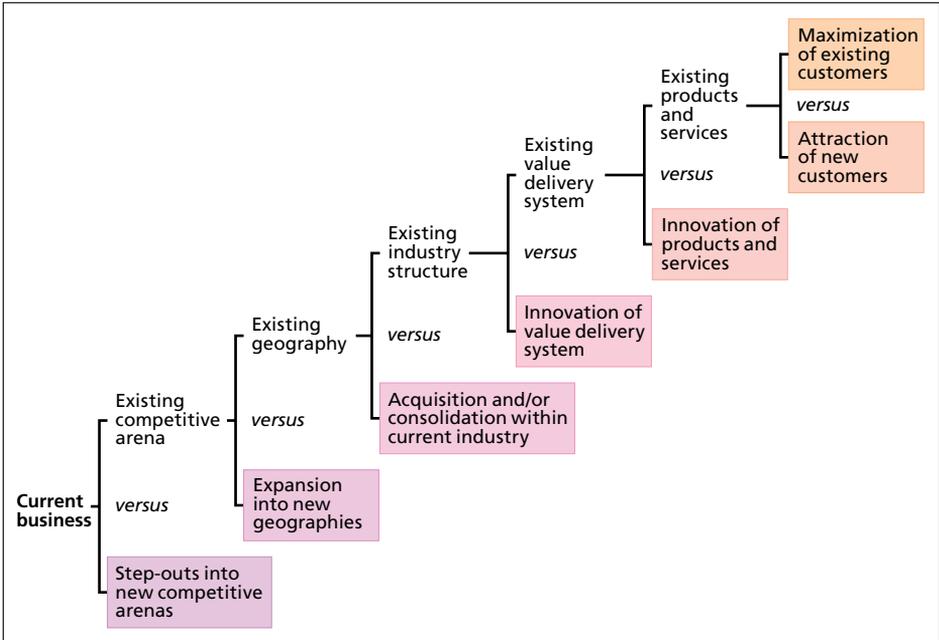
Companies in similar positions in an industry may see options very differently and pursue strikingly different courses

No single strategy can offer a complete view of how to grow, and any approach that overemphasizes one strategy also oversimplifies the manager's challenge. Given that each company brings to growth a unique position and exposure to different kinds of opportunity, there must be many possible strategies for each to consider.

That is certainly the view taken by successful growers: they believe neither their industries nor circumstances prevent them from considering opportunities along various paths. Indeed, companies in similar positions in a given industry may see their options very differently and pursue strikingly different courses. We have seen the best companies consider seven distinct strategic degrees of freedom – and use most of them (Exhibit 3).

1. Maximizing existing customers. The first degree of freedom – and the one closest to home – is to sell more of the current product range to existing customers. This may simply mean using promotional programs to increase the frequency of purchase or use. However, it can also mean managing sophisticated cross-selling programs. State Street Boston is a good example of a company making the most of its existing customers. It has become the world's leading provider of custodial services by acting as the “outsourced back office” to pension funds and mutual funds. While many customers start out with bulk “commodity” services, however, State Street grows with these

Seven strategic degrees of freedom



existing customers by offering them increasingly differentiated and, therefore, higher value-added services.

2. Attracting new customers. A second way for a company to grow, still without stepping into new product ranges, is by attracting new customers to its existing product range, thereby expanding the size of its customer franchise. Gillette, for instance, paid little attention to women for years. By extending the marketing of its Sensor product to women, however, it has both expanded the women’s shaving market and taken 65 percent of it.

3. Innovation of products and services. Among the commonest ways to grow is the introduction of new products and services. Gillette continually moves customers up to new, improved razors that are better than competitors’ offerings: from coated stainless steel blades, to twin-bladed products, to a pivoting head shaver, to a pivoting head shaver with a lubricating strip, to its revolutionary Sensor, and now Sensor Excel. Gillette has also built on its razor brand to add grooming products such as aftershave lotion, deodorant, and shaving cream.

4. Innovation of the value-delivery system. Successful companies recognize the potential in redesigning the business system by which a product or service is delivered. The Home Depot has used this path, developing a fundamentally new retail system which is more appealing to most customers than the small local hardware store (because it gives better service and

wider choice) and cheaper (because of its buying power, efficient logistics, and capital productivity). In financial services, Charles Schwab pioneered the discount brokerage industry in the US after deregulation in the mid-1970s – offering price-sensitive customers fast, accurate execution of share-trading orders at substantially lower cost than full-service competitors. Schwab has continued to innovate with improvements to its delivery system such as automated telephone trading, personal computer trading, and, most recently, Internet trading.

In India, Arvind Mills has redesigned the value-delivery system for jeans. Arvind, the world's fifth-largest denim manufacturer, found Indian domestic denim sales limited because jeans were neither affordable nor widely available. At \$20 to \$40 a pair they were beyond the reach of the mass market, and existing distribution systems reached too few towns and villages. In 1995, Arvind introduced *Ruf and Tuf* – a ready-to-stitch kit of jeans components (denim, zip, rivets, leather brand patch) priced at about \$6. It distributed them through 4,000 tailors, whose self-interest motivated them to market the kits to create demand for sewing services. *Ruf and Tuf* are now the largest-selling jeans in India by far, driving sales in Arvind's main product, denim, and netting the company a potentially powerful consumer brand.

Successful companies recognize the potential in redesigning the business system by which a product or service is delivered

5. Improving industry structure. Improving industry structure is a degree of strategic freedom frequently exercised by great growers, because it involves growth close to the core, that is, in similar geographies and types of business. At its simplest, this can mean buying businesses to be improved on a stand-alone basis, and some types of greenfield capacity expansion. Both can change an industry's cost and capacity dynamics. European industrial companies such as Jefferson Smurfit and CRH use this path, as do US consumer goods companies ConAgra and Sara Lee, specialty manufacturer Federal Signal, and high-tech innovator Thermo Electron.

Multiple acquisitions enable companies to create economies of scale – CCA found this with its franchises in Austria and Australia. Again, it is a course that can add up to influence the competitive dynamic of a whole industry, as Columbia/HCA's consolidation of the US hospital sector illustrates. Founded in 1987, Columbia/HCA's principal strategy has been to acquire, and often merge, hospitals in adjacent regions. Ten years later, it owns 343 hospitals, 135 outpatient surgeries, and 200 home health agencies, making it the largest healthcare services provider in the US. The same kinds of economic benefit could of course be achieved with alliances and joint ventures, removing the need to acquire the assets outright. Some industries can also be reshaped by influencing regulation.

6. Geographical expansion. The fourth strategic degree of freedom is geographical expansion, which companies can pursue either by intensifying their coverage of regions in which they already operate – as 7-Eleven Japan, The Home Depot in the US, and Australian cinema and entertainment group Village Roadshow are doing with spectacular effect – or by moving into new regions (the strategic path at the heart of globalization). Many companies in our sample have taken the latter course, including Arvind Mills, Sara Lee, Johnson & Johnson, Gillette, SAP, and Jefferson Smurfit. It can, however, be a difficult path to navigate.

7. Stepping out into new business arenas. Many successful growers grow by competing in new arenas. They seek opportunities vertically along their industry chain, or find areas of their existing operations in which to specialize. Enron vertically integrated from gas pipelines into gas-fired power generation. State Street Boston, on the other hand, started as a bank but spotted a chance to specialize, as already noted, in the provision of custodial, accounting, and information services to pension and mutual funds.

Truly great companies – those that are able to sustain growth – pursue growth along several of these paths, often simultaneously

Other companies step into new businesses to which they can apply established skills. Sara Lee has entered a range of consumer brand businesses from pantyhose to hot dogs. Federal Signal, which started in signs and signals, is now a leader in specialty vehicles too, including fire engines and street sweepers. Charles Schwab stepped from discount brokerage into the mutual fund agency business, defined contribution pension funds, financial advisory services and, most recently, direct selling of insurance.

It is clear that truly great companies – those that are able to sustain growth – pursue growth along several of these paths, often simultaneously. Many, such as Disney, use all seven degrees of freedom. (See the boxed insert, “Disney’s use of seven degrees of strategic freedom.”)

Resourcing processes to generate ideas

Recognizing the strategic degrees of freedom available for growth is important, but not enough. Companies still have to identify specific opportunities. To do so, they pour resources and senior management time into generating ideas. In this way they produce so many that competitors are left exhausted from the effort of keeping up. Not all ideas will work, but one could be the next big opportunity.

Johnson & Johnson, for example, has dozens of vice-presidents of licensing and acquisitions, many with doctorates in law or science or medicine. Their job is to identify and nurture opportunities by establishing relationships with

DISNEY'S USE OF SEVEN DEGREES OF STRATEGIC FREEDOM

Many wonder if, perhaps, Disney is a special case. While it may be, we see very similar patterns in most of our sample of growth companies. And one need only look back to its dark days in the early 1980s to note that Disney's growth has not come as a natural birthright on the strength of its assets. Disney has driven growth since then by using all seven strategic degrees of freedom. Disney, as a world-class marketer, is very good at **maximizing its current customer base**. It also **attracts new customers**, however, by going after customer franchises beyond its traditional family orientation. It started Touchstone and Hollywood Pictures, and purchased Miramax, for instance, in order to tap the teenage and adult markets. Disney also constantly **innovates with products and services**. Its release of three animated feature films every two years is the starting point for the introduction of thousands of merchandising products, home videos, music cassettes and discs, attractions and rides at theme parks, live theatrical productions, and even computer games. Recently, it has also announced new theme parks, including Animal Kingdom and California Adventures.

Disney has been at the forefront of most of the **value-delivery system innovation** in its industry. It was quick to adopt new channels for its entertainment – first television (with the *Wonderful World of Disney*), then cable television (with the Disney Channel), and eventually home video. It opened a new merchandising channel in the form of a chain of Disney Stores, then changed the way some

people take vacations by building on its theme park business in Orlando to deliver a unique package: guests are offered day- and night-time entertainment at the Magic Kingdom Park, EPCOT, and Disney-MGM Studios, as well as hotel accommodation, restaurants, and bars. Every part of a tourist's stay can be catered for through a Disney package deal.

Geographically, Disney has grown by distributing its films, videos, and merchandise worldwide. It expanded its theme park business first from Anaheim to Florida, then Tokyo, and then France with EuroDisney. It is now extending its stores globally.

In order to **improve its industry structure**, Disney has largely eschewed big acquisitions (ABC excepted) in favor of more subtle vehicles. It creates cross-promotional relationships with McDonald's and Mattel based on Disney characters, for example. The company shapes its regulatory environment by working with the Florida government to secure unique property ownership and development arrangements.

Disney has a long tradition of **stepping into new arenas** when it sees an attractive opportunity. Its first step was from animated films into theme parks; more recently, it has moved into live entertainment (including theater and sports), cruise liners, resorts, and even residential communities such as Celebration, in Florida, and Val d'Europe, in France. Perhaps its biggest bet so far is its move to integrate vertically into television by acquiring ABC.

medical entrepreneurs, venture capitalists and investment banks, research establishments, and universities. The institutions give Johnson & Johnson access to new medical technologies that might be good targets for acquisition. After development, these technologies become the products Johnson & Johnson distributes through its global salesforce.

In other environments, the processes are more organic but the focus on generating opportunities is the same. Opportunities present themselves to the Hong Kong-based Li Ka Shing group, which includes Hutchison Whampoa, through the extraordinary network of contacts Li has cultivated.

He has achieved unequalled presence in China by cultivating relationships with central and regional governments, state-owned enterprises, financial institutions, overseas Chinese entrepreneurs, and western multinationals.

The process has been under way since the late 1970s. Li built the China Hotel in Guangdong in 1980 before China opened up, then donated HK\$850 million the following year to build Shantou University. He met Deng Xiaoping in 1986 and maintained contact after the Tiananmen Square protest in 1989. The same year Li contracted China Aviation to launch the Asiasat I satellite for StarTV. He also shares business interests with government enterprises such as CITIC and Cosco. The resulting contacts have opened opportunities that account for much of the several billion dollars he has committed to the mainland.

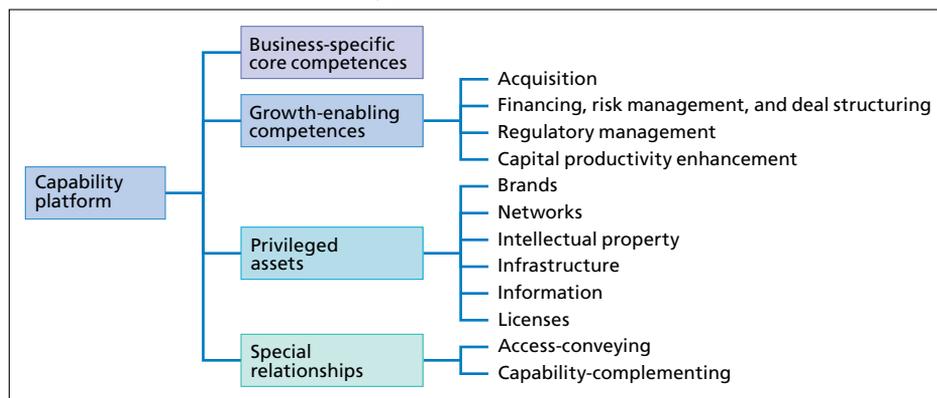
Assembling platforms of capabilities

Finding even the most fertile growth opportunities does not mean a company will grow. Great growers know they will profit from an opportunity only if they are *capable* of exploiting and protecting it. Unfortunately, most advice about how to use capabilities to grow tends to be narrow and may reinforce managers' perception that they are hindered by having limited capabilities.

Perspectives such as “skills-based strategy” and “the core competence of the corporation” rightly emphasize the importance of the skills inherent in an organization's people and processes. But neither considers what *other* capabilities a company might bring to bear. Great growth companies do. They recognize, and maximize, whole classes of capability ignored by traditional perspectives. They start with strong business-specific competences, but also acknowledge the importance of **growth-enabling skills** (in acquisitions and deal structuring, for example), **privileged assets** (such as infrastructure, patents, and brands), and **special relationships** (Exhibit 4).

Exhibit 4

Potential elements of a capability platform



Business-specific competences. Successful growers are good at what they do and have skills that make them distinctive. Disney, for example, possesses unmatched competence in character design and animation; since 1928 and the first Mickey Mouse cartoon, *Steamboat Willie*, Disney has led its industry. This has been the foundation for growth in filmed entertainment from which the company has grown into merchandising, music publishing, and theme parks.

Great growth companies recognize, and maximize, whole classes of capability ignored by traditional perspectives

Great growers do not only use such business-specific competences to make more money from existing assets; they are also able to see more value in new opportunities for which those competences are required than others do. Canada's Barrick Gold, which has quickly become the world's most profitable and third-largest gold producer, has distinctive competence in its development and operation of gold mines, for example. It uses the biggest autoclaves in the industry, runs the largest dewatering system in the world, and has exceptionally low overheads and a unique approach to exploration and development of reserves near existing mines. These are the basis of the company's growth formula: they mean Barrick is able to take mines that to others appear marginal and turn them into top performers.

Growth-enabling skills. Focusing on core competences gives a limited view of the range of attributes required for growth. Great growers are also distinguished by their mastery of more generic "growth-enabling," skills including making acquisitions, financing, risk management and deal structuring, regulatory management, and capital productivity enhancement.

It has become the popular wisdom that acquisitions, especially large ones unrelated to a company's main business, are risky and often destroy value. Yet almost all the companies in our sample have used acquisitions as part of their growth strategies. More than half the growth of US food company ConAgra, for example, has been driven by acquisition. The company has made more than 45 significant purchases in the past ten years alone. One core skill that pervades ConAgra is the ability to find and secure acquisitions that meet growth/return targets.

Not all companies' acquisition programs are about buying established businesses, however. They can also focus on feeding the "opportunity pipeline," with purchases aimed at patents and small businesses developing promising ideas.

Great growers also commonly exhibit skills in financing, risk management, and deal structuring. While Barrick Gold's core competence is in the operation of gold mines, Robert Wickham, then chief financial officer,

LEADING GROWTH

Kickstarting and sustaining profitable revenue growth is tough. The harsh statistical reality is that only 10 percent of companies with above-average growth will sustain it for more than ten years. Executives who aspire to grow profitably and sustainably are therefore betting against the odds. A sound growth strategy is important. But it is a long way from a successful growth program.

Why do so few growth programs succeed? And what can leaders do to change the odds in their favor? These are the questions we have sought to answer with research into 40 successful growth companies (Exhibit 1, main text), supplemented by research into 15 failures.

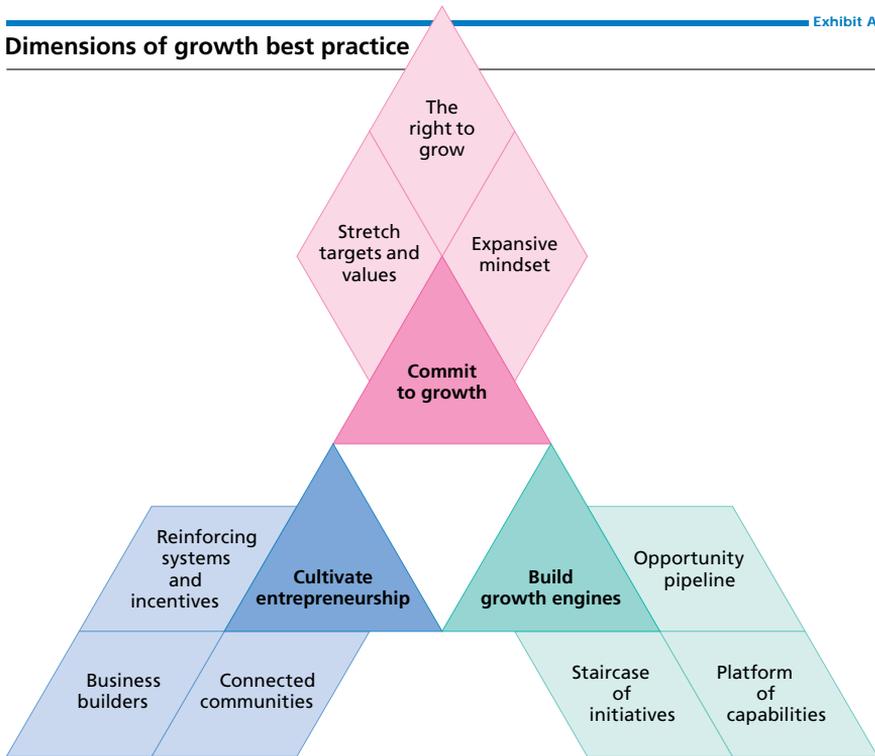
The first reason for failure is that many management teams do not integrate and balance the aspirational, strategic, and organizational imperatives of growth. Some executives begin in the wrong place, developing bold strategies before they have “earned the right to grow” by ensuring

that current operations are profitable and competitive. Others invest in generating ideas before they have the people, incentives, and structure to move from concept to reality. Yet others focus on building ambition and entrepreneurship but neglect to impose the discipline of choosing between strategic alternatives.

The second reason for failure is that executives find it difficult to concurrently manage initiatives with different pay-off horizons. It is not an easy job. Some companies protect and extend their core business well in the short term, but neglect to invest adequately to secure growth over the longer term. Not surprisingly, growth begins to stall after three to five years. Others get so excited by building momentum in the emerging growth engines that will underpin profitability three to six years out that they pay insufficient attention to today’s core – and begin to lose the ability to generate cash and the stakeholder confidence required to sustain the right to grow.

Dimensions of growth best practice

Exhibit A



Leadership across three dimensions

Successful growth leaders balance and integrate their efforts across three dimensions. They build a stretching commitment to growth throughout their organization, drive development of new growth engines, and cultivate the environment of entrepreneurship in which growth thrives.

All companies manage across these priorities to some extent. But the most successful are distinguished by the intensity and balance with which they pursue the nine actions that underpin the aspirational, strategic, and organizational imperatives (Exhibit A). Disney's growth, for instance, has been driven

by the skillful operationalization of all nine dimensions of strong growth programs (Exhibit B).

Commit to growth

- **Earn the right to grow.** Growers must *earn* the right to grow, then maintain it. They relentlessly pursue operational excellence to underpin their growth efforts, and divest underperforming or distracting businesses. They earn investors' confidence through clear and consistent communication about growth programs.

- **Raise the bar through stretching targets and values.** Growers aim high. Many set

Exhibit B

Three dimensions of Disney turnaround, 1984–88

Commit to growth

Earn the right	Began by securing shareholder support for 5-year turnaround program Executed short-term program to ramp up results
Raise the bar	Set vision to be world's premier entertainment company Set tough targets (eg, "20/20" – 20% pa growth and 20% ROE)
Embrace expansive mindset	Redefined image as integrated entertainment company, not exclusively theme parks or films. Committed to creativity Emphasized unlocking value of latent assets (eg, film library) and driving synergies (eg, merchandising spin-offs from animated characters from Mickey Mouse to Roger Rabbit)

Build growth engines

Fill opportunity pipeline	Instituted processes to generate new ideas (eg, "gong show" presentations of script ideas by employees to Eisner and Katzenberg) Encouraged creativity in cross-promotions
Assemble platform of capabilities	Leveraged Disney's underutilized platform of capabilities (eg, animation characters and properties) Built new capabilities (eg, innovative financing, new animation skills, consumer marketing) Leveraged outsiders (eg, promotional partners such as Mattel)
Climb a staircase	Pursued several new staircases and increased pace of steps on traditional staircases – including accelerated growth in resorts and vacation properties

Cultivate entrepreneurship

Breed business builders	Assembled new top team <ul style="list-style-type: none"> • Eisner (CEO) from Paramount • Wells (COO) from Warner Brothers • Wilson (CFO) from Marriott Restructured mid-level in first year <ul style="list-style-type: none"> • Brought in 30 new movie executives • Fired 400 people in first 12 months
Create connected set of small communities	Drove accountability down the line to creative teams, projects, and groups Began capturing synergy across independent groups, eg, cross-promotion of Roger Rabbit merchandise
Systems and reinforcing incentives	Restructured salaries and bonus schemes to attract key executives (eg, Eisner earns 2% of any profit increase over 9% per annum) Shifted culture from "holiday camp" to "boot camp," penalized poor performers

LEADING GROWTH

profit targets well beyond industry averages. Others articulate and embrace stretching aspirations based on what they want their company to become. All balance targets and aspirations with strong corporate values. These can be critical to prevent an organization shaking apart under the strains of growth.

- **Embrace an expansive mindset.** Growth companies do not believe their business environments limit growth. They reject traditional market definitions, challenge conventional wisdom, and break constraining mindsets so that they are less likely to miss opportunities a more orthodox mindset might obscure. They push their passion for growth throughout the organization to motivate employees.

Build growth engines

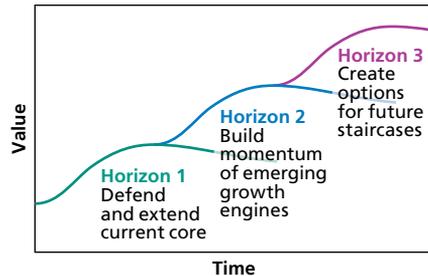
- **Fill the opportunity pipeline.** Growers gush with ideas, and recognize that they will need more and more to keep up the pace of growth. They understand there are multiple degrees of strategic freedom, and invest in the search for opportunities along as many of them as possible.

- **Assemble a platform of capabilities.** Companies that think about their capabilities only in terms of business competences are missing much of their potential competitive advantage. Growers build from a broader platform of capabilities which includes privileged assets, special relationships, and growth-enabling skills. And if they are missing the capabilities they need to exploit an opportunity, they assemble them through partnerships, acquisitions, or internal development.

- **Climb a staircase of initiatives.** Growers do not let themselves get stuck in a morass of strategic planning and medium-term budgeting. While they are committed to a long-term vision, they focus on near-term steps. They evolve by linking these small, manageable steps in series. Each builds new capability and opens new horizons.

Exhibit C

Concurrent management across three time horizons



Cultivate entrepreneurship

- **Create a connected set of small communities.** People in growth organizations do not sit in crowds; they run in teams. Growth companies organize around small accountable communities – such as independent operating companies – which replicate the speed and flexibility of small companies and foster a greater sense of ownership and pride in achievement. At the same time they achieve the reach and resources of a large corporation by sharing brands, infrastructure, relationships, people, and best practices.

- **Breed business builders.** Growth requires entrepreneurs: people who want to build their own businesses regardless of the challenges. But they are scarce, and many companies' greatest growth constraint is not having enough of them. So growers bring in new blood from outside and put in place systems to nurture new entrepreneurs and leaders from the inside.

- **Design reinforcing systems and incentives.** Growth is hard work, so the pay-off must be clear. Growers reward success handsomely by giving top performers increased responsibility, variable compensation, and equity distributions. They also penalize mediocrity.

They ensure that other systems reinforce their aspirations. Planning, budgeting, capital allocation, and performance yardsticks are designed to provide support and manage risk.

Leadership across three time horizons

Growth leaders manage concurrently across three time horizons (Exhibit C). They aim to defend and extend their current core business to pay off in the short term, work hard today to build momentum in new or emerging businesses which will underpin medium-term profit growth, and devote time and resources to explore and secure options for long-term profit growth (Disney example, Exhibit D).

The number of years in each horizon will vary among industries. In slowly evolving, capital-intensive basic materials sectors such as pulp and paper or chemicals, the tail of the first horizon may be five or ten years out. Hyper-evolutionary software, electronics, or Internet businesses may see their third horizon as close as five years away.

The challenge is to balance today's efforts across all three time horizons in proportions appropriate to industry context. Managing the tensions inherent in simultaneously

attending to all three is easy to advocate, hard to do. The types of targets, strategies, people, performance metrics, and incentive systems appropriate to creating medium- or long-term options are often at odds with those needed to drive short-term performance. Bringing all this together across three dimensions and three time horizons takes judgment, courage, and tolerance of ambiguity.

The right balance for any particular company, of course, depends on the industry and the company's starting position. Companies whose growth has stalled must pay particular attention to initiatives to kickstart growth in the short term. Companies with sound core businesses but few long-term options may pay more attention to horizons two and three, particularly if their industries are changing quickly. Neither type, however, can afford to ignore any of the three.

Exhibit D

Leadership across three time horizons during Disney turnaround, 1984–88

	Horizon 1 Drive growth of current core	Horizon 2 Build momentum of emerging engines	Horizon 3 Secure options for future
Actions taken in first years of turnaround	<p>Dramatically boost theme park revenue</p> <p>Increase admission prices 45%</p> <p>Launch advertising and promotion campaign</p> <p>Build new attractions at existing parks</p> <p>Exploit latent assets in film library</p> <p>Release classics to home video market</p> <p>Syndicate classics to television</p>	<p>Rejuvenate filmed entertainment growth engine</p> <p>Rejuvenate animation group (new people, new equipment, new projects)</p> <p>Raze and rebuild movie group (new people, new actors, new financing vehicles, new projects)</p> <p>Accelerate growth of resorts and vacation properties</p> <p>Plan/design Disney-MGM studios</p> <p>Open Grand Floridian Hotel</p> <p>Acquire Wrather Corporation assets</p> <p>Expand consumer products merchandising, eg, Mickey Mouse products for adults</p> <p>Increase cross-promotion with film, eg, 500 Roger Rabbit products</p>	<p>Test new consumer product concepts</p> <p>First Disney store</p> <p>Direct mail experiments</p> <p>Take early steps in broadcasting</p> <p>Acquire K-CAL (TV station)</p> <p>Produce TV shows</p> <p>Evaluate music industry leading to Hollywood Records initiative</p>
Pay-off from actions	<p>Amazing short-term turnaround: Disney revenues more than doubled between 1984 and 1988, increasing net income from around \$100 million to over \$500 million in 1988</p> <p>Filmed entertainment operating income from <\$50 million in 1985 to >\$1 billion in 1995 – driven by 34% pa revenue increase</p> <p>Theme park revenue and operating income growth of 12% pa from 1985–95</p>	<p>Consumer products group operating income now over \$500 million on sales growth of 33% pa from 1985–95</p> <p>Over 500 stores worldwide</p> <p>\$15 billion of Disney licensed merchandise sold globally (Disney share = \$2 billion)</p> <p>Broadcasting now one of Disney's major businesses after recent ABC acquisition</p>	

recognized in 1992 that larger gold companies would need to know as much about financing as they do about metallurgy.” Barrick has used gold bonds – which index interest to the gold price – to finance new mines, offloading some of the risk of developing a mine. Li Ka Shing makes his capital go further and shares risk through clever deal structuring. He reduced the initial funding needs of StarTV, for instance, by securing upfront payment from founder advertisers while deferring StarTV’s payments to program suppliers, both in return for sharing the potential upside.

Established distribution networks enable their owners to piggyback new products into the market at lower cost than competitors

Finally, exceptional capital productivity skills enable great growers to make commercial successes of projects that other companies might reject. Increasing the incremental productivity of capital investment, not only

increases returns on individual projects but also expands capacity and resources for further growth. Hindustan Lever’s exceptional success in Indian consumer goods markets – it is the country’s largest packaged goods manufacturer – is partly due to its ability to achieve sales revenues per dollar of fixed assets that are double those of the Unilever company worldwide.

Privileged assets. A company’s assets, if distinctive, can bring competitive advantage in current businesses, but they can also be important in future development. Privileged assets include brands, networks, infrastructure, information, and intellectual property, and may be as important in exploiting growth opportunities as people skills and company processes.

Disney uses its proprietary intellectual property as a privileged asset. Its library of characters such as Mickey Mouse and the Lion King has underpinned development in home videos, musical recordings, merchandise retailing, and theme parks. Disney is not unique; many companies have similar intellectual property assets in the form of proprietary technology and patents. To be valuable, however, intellectual property must be *recognized as such* and put to use.

But in emphasizing the importance of knowledge-based assets, it is easy to overlook the contribution physical infrastructure can make. In the petroleum industry, adding gas fields to existing trunk pipeline routes is a recognized way of growing at minimal incremental cost. Some mining companies are similarly able to turn established infrastructure into a growth asset. By controlling the heavy-haul freight railroads and port infrastructure required for remote mines, they are able to develop other proximate deposits – that would not on their own justify construction of new infrastructure – at incremental cost. In gasoline retailing, oil companies have come to see their outlets as prime real estate upon which to build convenience stores and fast-food outlets.

Networks and information can similarly be a basis for growth. Established distribution networks enable their owners to piggyback new products into the market at lower cost than competitors. Hindustan Lever possesses a powerful base in the form of its distribution network into thousands of Indian villages. This has garnered the company an advantage that is particularly hard to emulate; it has better maps showing village locations and road quality than even the government mapping service. And information – databases of customers, or exclusive knowledge of markets – is increasingly used to gain advantage. Capital One, for instance, prefers to define itself as an information-based marketing company rather than as a credit card issuer.

Special relationships. Relationships are one of great growers' most important – but least talked about – capabilities, as Li Ka Shing's unrivalled position in China demonstrates. They may provide access to deals and financing, or bring complementary skills needed to develop an opportunity.

The access that carefully cultivated relationships open up is important not only in emerging markets. Bombardier, a Canadian snowmobile maker that has become the world's fourth-largest aircraft manufacturer, owes much to the strategic importance of its relationships. Building on a platform of operational excellence in other transportation manufacturing markets, Bombardier's staircase of growth in aerospace has relied on strong strategic partnerships with other aerospace technology leaders. This network allows Bombardier to share project risk and concentrate on its own strengths as designer, assembler, and marketer.

Relationships enable companies to pool skills for the purpose of exploiting opportunities one company could not pursue alone

Relationships also enable companies to pool skills for the purpose of exploiting opportunities one company could not pursue alone. Village Roadshow has combined its expertise in cinema operation with Warner Brothers' European cinema sites to accelerate both companies' growth in Europe. At the same time, Village's Australian knowledge and Warner's theme park expertise have fuelled growth in Australian theme parks and resorts.

A web of complementary relationships is at the heart of the growth formula pursued by SAP, the German software maker. The complexity of SAP's products requires technical expertise at every stage of implementation. Rather than provide that itself, SAP uses partnerships – with the makers of the hardware that runs its software (IBM, Compaq, Bull, or NEC, for instance), with the vendors that sell the product and provide technical support, with the systems consultants that implement the product (Price Waterhouse, Andersen Consulting, or Ernst & Young, for example), and with the software developers that provide complementary business- or industry-

specific functions. It is in the interests of each partner to increase SAP's sales: widespread adoption has made SAP R3, its leading product, the worldwide standard in integrated business software.

Breaking constraints by assembling new capabilities

It can appear that companies like these were *always* more capable than their competitors. Often that is not the case. Many managers setting out to grow face a gap between the abilities they have and those they need to net opportunities. By assessing their skills like a laundry list, they can only conclude that they do not have what it takes to bag the prize.

But great growers shift their attention from what they have to what they need, and go out and get it. Consider Bombardier. It won its position of the fourth-largest aerospace manufacturer in the world – dominating the market in smaller regional aircraft – by assembling and then developing the skills it needed in just ten years. It started in 1986 by acquiring Canadair. In the late 1980s, it launched improved versions of its Challenger business jet. In 1989, it bought Shorts Brothers. Shorts, the nacelle manufacturer for the Fokker 100, was a technical leader in composite materials and had underutilised manufacturing capacity. In 1992, Bombardier added 51 percent of de Havilland, another Canadian aircraft maker that brought with it a state-of-the-art paint shop and a marketing and salesforce with access to 60 commercial aircraft

customers in 22 countries. When the company launched its first regional jet it was from an already established market position.

Many managers setting out to grow face a gap between the abilities they have and those they need to net opportunities

Similarly, Samsung assembled the wherewithal to enter the semiconductor business from scratch. It is a story of capability build-

ing that is daring in terms of size and strategic risk. Having studied the idea's potential in 1982, the company established an R&D centre in California the following year to collect technology information, recruit engineers, train Korean staff, and conduct initial product and process development. It also hired fresh, high-calibre Korean engineers from US high-tech companies. It licensed design technology from Micron Technology and process technology from Sharp, and then acquired the latest equipment, sending more than 70 engineers to the suppliers for training. Samsung also retained Japanese technical consultants and retired engineers to “moonlight” in technology transfer and troubleshooting. In 1986, the company also joined an R&D consortium with LG and Hyundai to conduct new basic research. Between 1987 and 1994, it invested more than \$4 billion in facilities and another \$300 million in product development.

In this way the company gradually closed the gap on competitors. It was four years behind Japanese rivals in entering the 64Kb DRAM market, but it

launched its 256Mb DRAM chips in 1994 at the same time as industry leaders did. While the jury is still out on whether Samsung will earn exciting returns – it depends on your view of the industry’s cyclical character and the cost of the company’s capital – there is no debate about the remarkable speed and effectiveness with which the company accumulated the skills for a world-class semiconductor business.

Not all capability assembly is so dramatic. Charles Schwab’s California pilot program in direct insurance sales, for example, combines the life insurance products of Great West Life with its own telephone sales representatives and customer relationships. If successful, the business could be extended to all Schwab customers across North America.

One key to putting together skills is to combine them in bundles that are tough for competitors to copy, because if competitors can imitate them, you cannot protect the value of your businesses. At Disney it is the combination of competences (animation, financial management, and theme park operation), privileged assets (cartoon characters, brand names, and resort properties), and special relationships (with promotional partners, entertainment talent, and the Florida government) that distinguish it.

The flexibility to cut short an unsuccessful series of steps is an attractive feature of the staircase approach

A company need not possess strengths in all areas of a business – just in the areas important to making money. Growers distinguish between attributes that garner value and those that are simply necessary to play the game. Enron became a world leader in international private power generation because it saw that profit did not depend on construction and operation skills, but on deal structuring and risk allocation. So in the early years it was unimportant that the company was not distinguished at building and operating power stations, because instead it was good at coordinating and negotiating fuel supply contracts, electricity sales contracts, financing packages, government guarantees, and construction contracts – skills few utility competitors possessed. Operating skills, on the other hand, could be acquired through tender.

Flexible evolution of a business

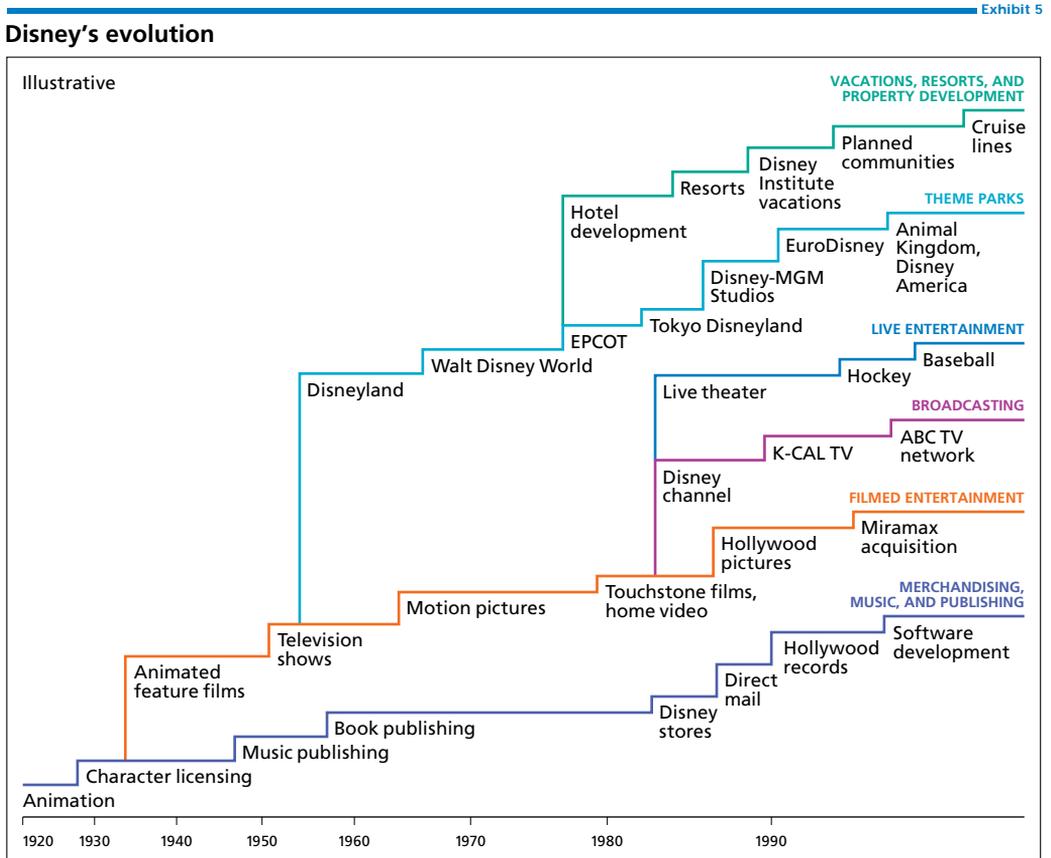
Not all combinations of opportunity and capability lead to successful long-term staircases. In fact, the flexibility to cut short an unsuccessful series of steps is an attractive feature of the staircase approach. Consider Lend Lease, a consistently growing Australian company. Having started in construction and property development, by the early 1980s Lend Lease had developed expertise in fund management through its wholly owned property trust. In 1982, the company spotted an opportunity in the approaching deregulation of

STAIRCASES TO GROWTH

financial services. It began with two modest steps: it bought 25 percent of Australian Bank, the first new trading bank established in Australia for 50 years, and a minority stake in MLC, a poorly performing insurance and fund management company. The investment in Australian Bank, while profitable, proved fruitless as a step into retail financial services, and Lend Lease sold its stake in 1988. MLC was a different story. Lend Lease has built it into the fourth-largest fund manager in Australia through a staircase of profit improvements and acquisitions.

Such flexibility provides one of the main advantages of the staircase approach. Over the medium term, it is possible for companies to transform their range of skills and business portfolio with limited risk. Indeed, it is a recurring theme among our sample of companies: they evolve their businesses over relatively short periods by pursuing options their new skills have opened up.

Many low-growth companies, in contrast, feel held back by advice to “stick to their knitting” and remain “focused.” But no one disputes the evolution of Disney’s knitting from cartoon animation into theme parks and television programming (Exhibit 5), or from theme parks into resorts, even though such



an evolution might seem to fly in the face of advice to focus. Moreover, Disney's evolution shows few periods of unmanageable stretch.

Many other great growers have evolved in a similar way. Hutchison Whampoa has developed from Hong Kong-based container terminals to electricity generation, retailing, and telecommunications in China, Canada, and the UK. Bombardier grew from a specialized manufacturer of snowmobiles into a world-leading maker of regional business jets and regional aircraft. Johnson & Johnson has extended into an extraordinary array of medical technologies. Gillette has added grooming products, small electrical appliances, and toothbrushes, and now batteries, to its core razor business. Federal Signal started in electrical signage and signals, and is now also a leading maker of specialized vehicles. Lend Lease, from its origins in construction, became a fully integrated international property company with a strong domestic financial services business. Charles Schwab has extended from discount brokerage into selling a range of financial products and services. The records of all of them suggest that truisms such as “stick to the knitting” and “focus on core competences” are prescriptions that require careful interpretation. 