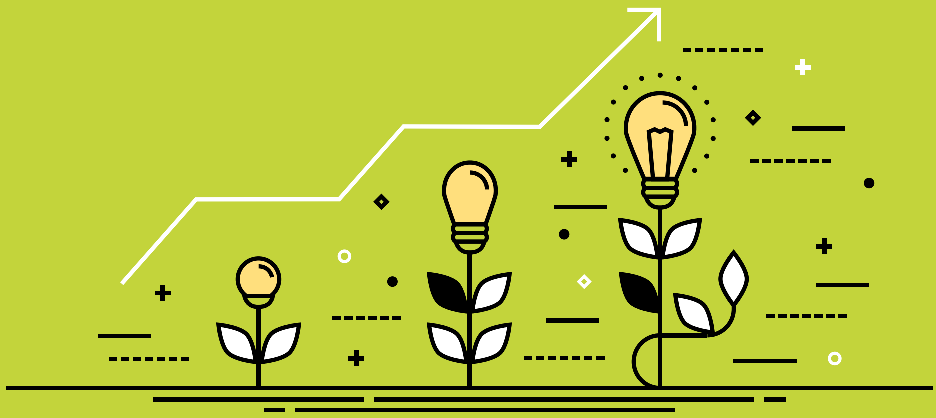

Disciplined Growth Strategies

Insights from the Growth Trajectories of Successful and Unsuccessful Companies

Peter S. Cohan

Apress®

DISCIPLINED GROWTH STRATEGIES

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—The Apress Business Team

To Robin, Sarah, and Adam

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About the Author

Peter S. Cohan is a Lecturer of Strategy at Babson College where he teaches strategy and entrepreneurship to undergraduate and MBA students. He is the founder and president of Peter S. Cohan & Associates, a management consulting and venture capital firm. He has completed over 150 growth strategy consulting projects for global technology companies and invested in 7 start-ups—3 of which were sold for over $2 billion. He has written 11 books and writes columns on economic policy, stocks, and entrepreneurship for *Forbes, Inc.,* and the *Worcester Telegram & Gazette*. Prior to starting his firm, he worked as a case team leader for Harvard Business School professor Michael Porter's consulting firm and taught at MIT, Stanford, and the University of Hong Kong. Since 2001, he has taught undergraduates and MBA students at Babson College. He earned an MBA from Wharton, did graduate work in computer science at MIT, and holds a BS in Electrical Engineering from Swarthmore College.

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Finally, I could not have completed this book without the help of my wife, Robin, who patiently read and commented on many of the chapters; and my children, Sarah and Adam, who always make me proud.

Introduction

I was the poster child for a confused adolescent. In college, I stumbled through a series of seemingly random career aspirations—concert pianist, poet (my father dissuaded me from this career choice by asking to look up 'poet' in the Yellow Pages), and architect—before realizing in my senior year that I wanted a career that combined my interests in computers and business strategy.

So I set my sites on becoming a strategy consultant—helping companies identify, evaluate and profit from growth opportunities—which I have done in various guises ever since.

Back then, consulting firms hired newly minted MBAs, rather than college graduates as they do these days.

While doing graduate studies in computer science at MIT, I met with the director of career counseling at its Sloan School of Management who introduced me to Index Systems, a consulting firm founded by four former Sloan School professors.

I found out that consulting firms hired very talented people and provided opportunities for traveling and working on a variety of interesting projects. Index focused on helping managers use technology to boost business performance.

I decided that I was most interested in strategy work, so after earning an MBA at The Wharton School, I went to work for Monitor Company—a strategy consulting firm cofounded by Harvard Business School strategy guru, Michael Porter.

My years there were a supremely intense learning experience. Thanks to what partners saw as a talent for turning Porter's ideas into processes for leading client teams, I was quickly promoted to managing consultant teams.

Ultimately, the demanding travel burned me out and I spent the next few years working as an internal consultant in the banking and insurance industries.

In 1994, I took a chance and started my own consulting firm that provided strategy consulting for large, high-technology companies. This happened at a lucky time in economic history—the Internet was emerging as a major force for business growth.

My consulting business boomed, I wrote several books—including *Net Profit*—which made me a regular on TV networks such as CNBC and an in-demand speaker at business conferences around the world.

I also began investing in start-ups—since then, I have funded seven private companies. Three of those were sold for over $2 billion.

In 2001, I began teaching at Babson College—which *U.S. News and World Report* has ranked the top U.S. entrepreneurship school for the last two decades.

After teaching part time, I became a full-time lecturer in 2014 and was promoted to a Lecturer of Strategy in 2016. I teach MBA and undergraduate courses such as Strategy and the CEO, Strategic Decision Making, Strategic Problem Solving, and Foundations of Entrepreneurial Management.

I also created and lead offshore Start-Up Strategy electives to Hong Kong and Singapore, Israel, Spain and Portugal, and Paris. In these courses, students visit with start-ups, venture capitalists, and accelerators and conduct six-week consulting projects for start-ups.

This brings me to why I wrote this book. In almost every course, I assign students the challenge of analyzing a company's problems and figuring out how to solve them.

By far the most frequent problem they encounter is that the company is not growing profitably. Sadly, their solutions to that problem are at best uneven in their originality and likely effectiveness.

This problem is not limited to students—the vast majority of CEOs struggle unsuccessfully with the challenge of how to revive a moribund company or how to sustain the growth of a company that has done well in the past.

I realized that it's unfair to expect students to come up with great growth strategies unless they have a practical road map for doing so.

In February 2016, I wrote a "Note on Growing Faster" to help remedy the problem. A more concise version of the "Note" was published as "Five Commandments for Faster Growth."[1]

But I concluded that in order to provide sufficient depth into how to craft successful growth strategies, I should write a book.

Disciplined Growth Strategies Road Map

If your organization needs disciplined growth, this book will explain how to achieve it in two parts.

Part I. Exploring the Five Dimensions of Growth

Chapters 2 through 6 examine how companies pursue growth along each of the five dimensions of growth—customers, geographies, products, capabilities, and culture.

For each of these chapters, Part I covers the following topics:

- Definitions of key terms and concepts, where appropriate.
- Summary of key principles for achieving growth through the dimension addressed in the chapter.
- Case studies of successful and unsuccessful large and small companies pursuing growth from the current or a new growth vector.
- Lessons learned from the cases about what to do and what to avoid.

Part II. Constructing Growth Trajectories

This second part of the book consists of its concluding chapter in which we will explore how companies chain together some or all of these dimensions into growth trajectories. Drawing on an analysis of Forbes 2000 companies, Chapter 7 does the following:

- Identifies the fastest and slowest growing companies.
- Describes the growth trajectories of the fastest and slowest growing companies.
- Analyzes the logic underlying the decisions to follow those growth trajectories.
- Highlights the most useful takeaways for leaders in what principles to pursue and which to avoid in constructing growth trajectories.

Chapter 8. Road Maps

Road maps for leaders to capture growth from each dimension using examples from the cases in the chapter.

[1]Peter S. Cohan, "Five Commandments for Faster Growth," *Knowledge@Wharton*, May 9, 2016, http://knowledge.wharton.upenn.edu/article/five-commandments-for-faster-growth/

CHAPTER

1

Introduction

One of the most important challenges that leaders face is to devise and execute strategies that speed up revenue growth. Not growing fast enough can be costly for executives and investors. Take the example of LinkedIn, the business social network service. After markets opened on February 5, 2016, investors hacked 44% from the company's shares. The reason was easy to understand, yet difficult to remedy. LinkedIn lowered its expectations for the year's growth in revenue (from 35% to 20%) and adjusted earnings (from 41% to 7%)—well below what analysts expected. This slashed a cool $1 billion from the net worth of LinkedIn's founder, Reid Hoffman, and forced its CEO, Jeffrey Weiner, to ponder important questions that must be answered before investors could hope to recoup what they had lost.

Where would faster growth come from? Could it be spurred by improving LinkedIn's offerings? By selling its current products to new customers, or in new geographies? By inventing new products for its existing customers? By adding entirely new classes of products, or creating a new growth culture? Ultimately, LinkedIn failed to answer these questions. On June 13, 2016, Microsoft paid a 50% premium over the previous day's price—$26.2 billion—to acquire LinkedIn. The deal restored LinkedIn shareholders to where they were before that fateful February day. And it let Weiner off the hook. He was no longer under pressure to conceive and implement an effective growth strategy for LinkedIn—that would become the responsibility of Microsoft CEO, Satya Nadella.

LinkedIn's growth challenge was just one side of the growth coin. The other is growing too fast—in a manner that boosts short-term revenues and stock price but is ultimately unstainable and leads to collapse. A case in point is Laval,

P. S. Cohan, *Disciplined Growth Strategies*, DOI 10.1007/978-1-4842-2448-9_1

Quebec-based pharmaceutical manufacturer Valeant Pharmaceuticals. Former McKinsey consultant Michael Pearson advised Valeant as an outside consultant in 2007—and took over as its CEO in 2008. In the seven years that followed, Pearson cut risky R&D (research and development) and made acquisitions—drastically raising the prices of its existing approved drugs. The result was a more than 1,000% spike in Valeant's stock price through early 2015—winning Pearson a $1 billion fortune. Valeant fell apart in September 2015 when its drug pricing policies came under attack—slashing 90% from the stock's 2015 peak value. Pearson was dismissed from Valeant's CEO slot. While LinkedIn's disappointing growth demonstrates the challenges that face executives who can't achieve enough growth, Valeant's implosion shows the high price that leaders pay for growing too fast with a strategy that can't be sustained.

The unfortunate truth is that very few executives can think of creative, practical solutions to such questions. To me this suggests a crying need for growth discipline. By this I mean a systematic process for brainstorming, evaluating, choosing, and implementing growth strategies that produce the kind of better-than-expected revenue and profit growth that boosts shareholder value—and makes it easier for leaders to attract and motivate top talent.

Why Growing Faster Matters

Growth creates opportunities for your people to develop their skills. It attracts the best talent to your company (and away from rivals), and it creates wealth for you and your investors. Moreover with the world economy struggling to grow at all, start-ups and public companies are increasingly falling into two categories—the vast majority that are stagnating and declining, and a tiny minority that are enjoying accelerating growth. Languishing public companies become fodder for so-called activist investors who buy a small stake, lobby hard for splitting the company into pieces, and clamor for board seats.

Consider the case of DuPont. In 2014, veteran activist investor, Nelson Peltz, bought a 2.7% stake in the chemical conglomerate and demanded that it break itself into pieces. While Peltz lost a proxy battle in May 2015, he won the war in October 2015 when DuPont's CEO, Ellen Kullman, resigned under pressure after a 46% drop in quarterly profits from the year before. Ultimately, Peltz got a split up—but not in the form he wanted. In December 2015, DuPont and Dow Chemical merged at a value of $120 billion with the idea that they would cut $3 billion in costs and two years later split into three public companies focusing on agricultural, materials, and so-called specialty products.

For top executives, such interventions are hugely distracting and often career ending. The desire to avoid such distractions should spur CEOs to lead their companies to much faster growth that boosts their stock price to a level that makes it harder for activist investors to flip for a quick profit. Shrinking private companies are even more vulnerable. Chances are good that they will not attract investment, will burn through their remaining cash, and shut down. Simply put, boards must ensure that their CEO is achieving rapid growth or has a compelling plan to deliver it. Otherwise, they should find a CEO who can.

Growth Challenge Varies by Company Size and Growth Trajectory

Growing faster is always a difficult challenge.

However, as illustrated in Figure 1-1, the nature of that challenge varies depending on the size of the company and its growth trajectory.

Company Size	Growing	Declining
Small	When will initial market be saturated? Should new growth opportunities be considered?	Can strengths be applied to another product or is it time to find an acquirer?
Big	What new source of growth is in the works? Is there room to grow in current markets?	Will an acquisition boost growth? Can we gain share in a new market? Is it time to sell?

Growth Trajectory

Figure 1-1. Growth Challenges by Company Size and Growth Trajectory

Here are examples of each:

- SimpliVity (small, growing). This Westborough, Massachusetts-based data storage supplier had grown to nearly 800 employees by December 2015 with revenues increasing 50% in the third quarter of 2015. By November 2016, SimpliVity's CEO, Doron Kempel, faced three challenges. Its biggest partner, Cisco Systems, was building a product to compete with SimpliVity's. Its larger rival, Nutanix, had gone public—raising significant capital that it could invest in sustaining its market lead. And SimpliVity was so eager to raise new—but its stock had since dropped considerably. Capital that rumors surfaced that it might be acquired for as much as $3.9 billion by Hewlett Packard Enterprise (HPE). In January 2017, HPE acquired SimpliVity for a disappointing $650 million in cash.[1]

[1]Peter Cohan, "Hewlett Packard Enterprise Pays $650 Million In Cash For SimpliVity," Forbes, January 17, 2017, http://www.forbes.com/sites/petercohan/2017/01/17/hewlett-packard-enterprise-pays-650-million-in-cash-for-simplivity/

- Fiksu (small, declining). This Boston, Massachusetts-based mobile app marketing algorithm developer had grown from less than $1 million in 2010 to $100 million in a mere 3 and one-half years with only $17.6 million in venture capital. But in 2015, Fiksu hit the wall. As that year dawned, Fiksu was planning to double staff to 500 and go public. Yet by April 2015 it had called off its IPO and announced plans to fire 10% of its staff. By September 2015, it had dismissed 25 more people. Intense price competition from better-funded rivals slammed the brakes on Fiksu's growth. Micah Adler, Fiksu's MIT-educated CEO, hoped to revive the company's growth by applying its algorithm-development skills to a new market – analyzing consumer data to help advertisers target more effectively. However, by March 2016, Fiksu was quietly folded into another company—a disappointing result for its investors. Adler said, "Eighty-five cents of every new online advertising dollar goes to Google and Facebook. It's harder and harder for small companies to compete."
- Amazon (big, growing). Seattle-based Amazon is a $100 billion e-commerce and cloud service provider that continues to grow at over 20% annually—despite earning barely perceptible profits. Since it needs to add over $20 billion in revenues to sustain that pace, Amazon's CEO Jeff Bezos faces a huge challenge in sustaining that growth. Can he invest in the right blend of new services, new capabilities, and new geographies to sustain that 20% growth?
- Apple (big, declining). Apple used to be the world's largest company as measured by stock market capitalization—but Alphabet (Google's parent) took over that spot for a few weeks in February 2016. And that's because Apple has not been able to come up with a new product—on the order of the iPod, iPhone, or iPad—that took significant market share from large, established markets like MP3 players, cell phones, and tablets, respectively. With Apple becoming dangerously dependent on a slowing market—selling iPhones in China—can it invent a new product that will accelerate its revenue growth?

What Is a Growth Opportunity?

There are plenty of huge markets in the world—for example, there are over $1 trillion worth of student loans—but market size alone does not mean it's a growth opportunity for your company. If the market is big and getting smaller, you may want to avoid it. If there is intense price competition in a market, there may be very little profit available for your company. And even if there is high profit potential in the market, it will mean little to your company if you lack or cannot create the skills needed to gain a significant share of that market. Moreover, even if the market is attractive and you have or can obtain the skills needed to take share, does the risk-adjusted return required to compete in that market justify the investment?

When considering growth opportunities, you should brainstorm without constraint. But before committing resources, rank the ideas based on the following definition: a growth opportunity exists for your company if it passes four tests:

- It relieves human pain—there is a chance to put a smile on the faces of unhappy people.
- There's a big market—many such people in pain will pay for a product to make them happy. For a start-up, a big market would be $1 billion—but to be attractive to a large company, a market would have to be correspondingly larger.
- You have the right capabilities—your company can design, build, distribute, and service the product. Or, as we will explore in the case of Netflix, it can create the right capabilities.
- You have an advantage—you are ahead of current and potential rivals in the race to make those people happy.

Anticipate Expiration of Current Growth Opportunities and Invest in New Ones

Moreover, in considering growth opportunities, decision makers must remember that they expand and contract over time. Every industry goes through life cycles—starting with slow initial acceptance, followed by very rapid growth, maturity, and decline. Some industries—for example, semiconductors—go through these cycles much faster than others—such as railroad cars. However, thanks to the way technological innovation has spread to more industries over the last several decades, no company is immune from the threat that its success surfing one technological wave will make it very difficult for the company to sustain that success in subsequent waves. As illustrated in Figure 1-2, leaders should think of their industry as a series of S-curves that will emerge as technology makes possible huge increases in customer value—what I call a Quantum Value Leap (QVL).

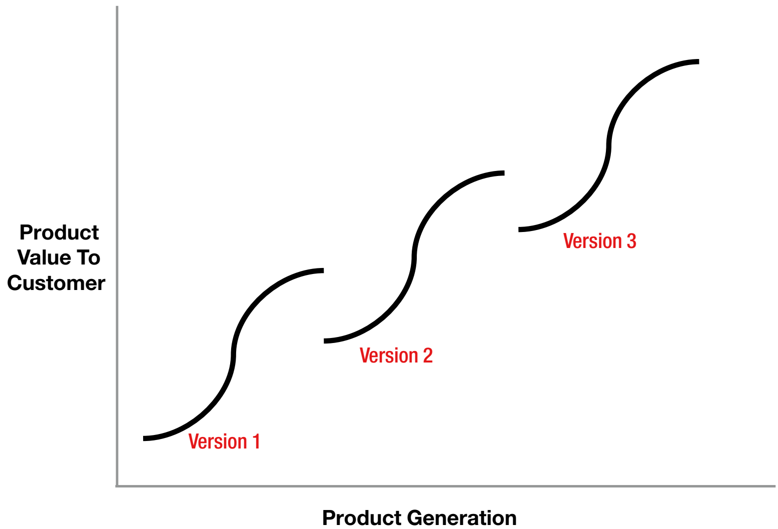

Figure 1-2. S-Curve Generations Boost Value to Customers

A QVL gives customers a reason to take the risk of switching to a new product from the one they are using now. Those risks can be considerable—especially if a business has changed its operations to use a supplier's current product. For example, in order to use so-called Enterprise Resource Planning (ERP) software, companies needed to pay millions of dollars to suppliers like SAP to license the software, millions more to a consulting firm to install it, and devote countless hours to training employees on how to change the way they operate in order to take advantage of the ERP system. Such a company would be unwilling to switch to a new ERP supplier unless it was obvious that the new technology would provide so much of a boost to its profits that it would be worthwhile to incur the costs of buying and installing the new product and taking the risk that it might not work properly.

Such a new technology would have to occupy the starting point of a new S-Curve. And the question for incumbent suppliers is whether they can envision that new S-Curve and supply it, or whether they would prefer to focus on milking the cash from the maturing one from which it derives the bulk of its revenue. For its part, SAP saw that companies like Salesforce were gaining market share from rivals such as Seibel by building a new S-Curve that would enable companies to rent continuously updated software that operated on outsourced hardware for a lower monthly fee.

Moreover, Salesforce changed the risk profile of corporate software purchasing. An IT executive who bought Seibel's product would pay millions of dollars and wait three years before the product's success or failure was clear. By that time, a sales manager could be out of a job. By contrast, Salesforce sold its service directly to sales managers who would need to wait only a few months before it was clear that it worked—a much less risky decision for sales managers.

By January 2016, SAP had implemented its own product on the Software as a Service (SaaS) S-Curve. And that product—S/4 HANA—promised to reduce by 40% the amount of computing power companies needed to employ, according to SAP co-founder Hasso Plattner. The success of S/4 HANA was so great that it accounted for 75% of SAP's cloud revenue during the fourth quarter of 2015—three quarters after it was introduced. One such customer, Airbus said at a June 2015 SAP customer meeting in France that it had sped up "reporting performance five-fold and data load time four-fold" after replacing its Oracle product with SAP HANA. While SAP did not lead the charge to the SaaS S-Curve, it did follow fast enough to gain a meaningful share of its growth phase.

Executives must know where they are on the current S-Curve and which technology will propel the next one. And they must develop the strategic discipline needed to use the profit generated by the current S-Curve to invest in the capabilities needed to tap the growth opportunities from the next one. The key to successfully making the transition from one S-Curve to the next is to do the opposite of what Clayton Christensen recommended in his book, *The Innovator's Dilemma*. Rather than housing the new technology in a separate subsidiary charged with killing the parent as he recommends, the CEO should manage the transition to the new S-Curve within the company. As described below, a case in point is Netflix's transition from a DVD-by-Mail service to an online streaming supplier.

Three Myths of Corporate Growth

While boosting growth is an imperative for all CEOs, achieving that end is made more difficult because decision makers are blinded by three powerful myths—drawn from *Grow to be Great* coauthored by Babson College senior lecturer Dwight Gertz. Ultimately, these myths are manifestations of confirmation bias—the notion that people seek out information that confirms what they believe and disregard information that challenges those beliefs.

Big Companies Can't Grow

Conventional wisdom is that start-ups sprint and big companies plod. To be sure, there is no comprehensive data on the growth rates of start-ups since they are privately held. Moreover, the ones that say that they are growing are much more eager to highlight their skyrocketing percentage growth rates, which often mask how small their revenues were and still are. While there are plenty of big companies that grow very slowly, there is much to learn by comparing big companies that are growing faster than 20% a year with peers whose growth is stagnant.

Table 1-1 provides a few illustrations of fast-growing big companies and their slower growing peers.

Table 1-1. Revenues and Growth Rates of Slow- and Fast-Growing Big Companies

	2015 Revenues ($B)	2015 Revenue Growth Rate	One-Year Stock Price Change
WalMart	$482	-1%	-21%
Amazon	107	22	44
Yahoo	5	2	-29
Google	75	18	26
CBS	13.9	6	-22
Netflix	6.8	23	38

Source: Yahoo! Finance, accessed February 28, 2016

My Industry Is Not Growing, So Neither Can Our Company

In almost every industry, some participants are growing much faster than the average company. Yet some CEOs believe that it is unreasonable for investors to expect their companies to grow faster than their industries—especially if they are large participants. Nevertheless, in many large industries that are growing relatively slowly, there are frequently significant companies that are growing faster—in some cases many times more rapidly than their peers.

Table 1-2 provides eight illustrations of large, slowly growing industries that host major companies growing many times faster than the average participant.

Table 1-2. Fast-Growing Participants in Large, SlowlyGrowing Industries

Industry	2015 Industry Revenues ($B)	2010 to 2015 Growth Rate	Fast Grower	2010 to 2015 Growth Rate
Fast Food	225.1	2.5%	Chipotle	15.4%*
Home Building	104.8	5.8	DR Horton	25.7
Credit Card Issuing	117.8	2.4	American Express	4.2
Security Software	10.4	3.4	Imperva	25.3
Soda Production	43.1	-1.2%	Monster Beverage	13.2
Computer Manufacturing	10.3	-13.3	Oracle	7.8
Medical Device Making	44.8	5.8	Medtronic	9.8
Dating Services	2.4	5.0	Zoosk	26.6

*Source: IBISWorld US, accessed February 28, 2016. *Chipotle Growth from 2011 to 2015*

The Only Way We Can Grow Is through Acquisition

Big company growth can come from many sources—products developed internally, partnerships, and acquisitions. Gertz and Baptista analyzed a sample of profitably growing companies and found that 61% of revenue growth was generated internally while only 39% of the growth was attributed to acquisitions. And while acquisitions usually fail, the ones that succeed do so because the acquiring company and the target need each other's capabilities to succeed. For example, during the 1990s, Cisco Systems regularly made over 60 acquisitions a year, and its most successful acquisitions were able to tap its powerful corporate sales force to turn an acquired company's technology into a $2 billion a year product.

Growth Comes from Five Dimensions

If you'd like your company to grow faster, what should you do? Follow a strategic growth discipline. And that discipline starts with a systematic approach to brainstorming, ranking, choosing, and investing in growth opportunities. Companies can find growth along five dimensions, ranging from the most basic to the most challenging. As depicted in Figure 1-3, these dimensions can either be the same as those in a company's existing practices, or reflect new and different parameters.

- Customers
- Geographies
- Products
- Capabilities and/or
- Culture

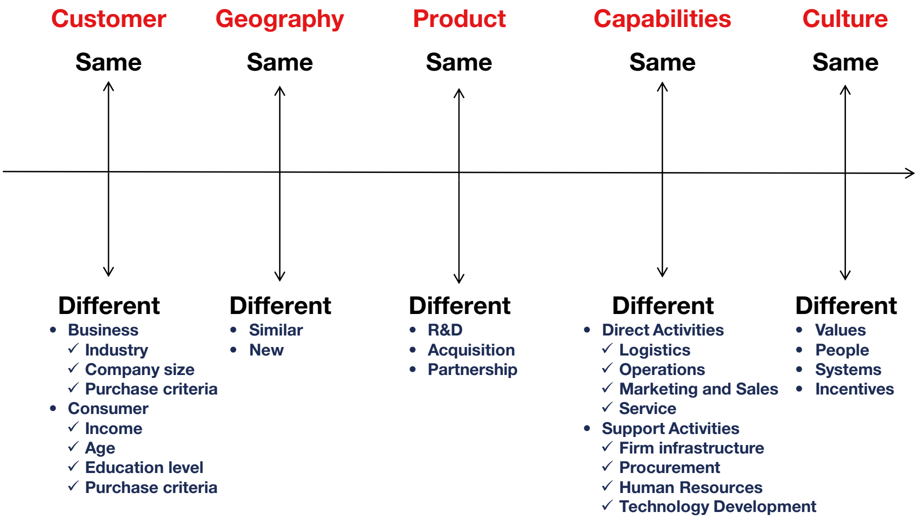

Figure 1-3. Five Dimensions of Growth

Let's look at examples of how companies have tapped these dimensions for growth, summarize the key insights from these cases, and recommend how leaders can apply them.

Customers: Same or Different

If you're already selling a product now, you may be able to grow faster by selling new products to your existing customers. Or faster growth may come from selling your current products to a new group of customers. To evaluate this decision, it helps to have a map of your customers. And the nature of that map varies depending on whether you sell your product to individuals or organizations. For example, if individuals buy your product now, you should try to identify whether most of those customers share common attributes such as the following:

- Age range
- Gender

- Income level
- Education level
- Attitude toward technology
- Political leanings

Consumers who share common attributes are market segments. If organizations buy your product, you ought to be able to segment your customer base by seeing how they cluster among a different set of attributes such as the following:

- Number of employees
- Industry
- Geography
- Attitude toward technology
- Financial condition

Can you take a bigger share of your current market or should growth flow from a new group of customers? One start-up is seeking growth by winning more business from its current customers. I invested in SoFi, a consumer lender based in San Francisco, which uses a unique marketing strategy to grow fast—from $168 million worth of loans in 2013 to $7 billion by January 2016. What makes SoFi different from a bank is that it picks customers who are graduates of top schools like Stanford and Harvard. Such customers tend to have better loan repayment rates and are more likely to have successful careers that make them lucrative financial services customers throughout their lives.

SoFi holds parties for its customers in cities around the United States. Such parties encourage its customers—millennials who graduated from top schools—to build relationships with each other and to bring in potential customers from among their peers. The company seeks to turn this cohort into lifelong customers by making them "feel as if they belong to an exclusive club," according to Bloomberg. As CEO Mike Cagney said, "We can do some things that really get you to start to rethink how your relationship with a financial services firm should work. We're trying to make these guys dinosaurs. And hopefully I'm the meteor by which they all die." While SoFi had made $7 billion worth of loans by January 2016—it had only won a tiny share of the $3.5 trillion (December 2015) market for consumer installment loans.

Thinking about segments should lead executives to ask questions such as:

- In which segments are the 20% of my customers that account for 80% of our revenues?
- Which segments do the other customers that account for the remaining 20% of our revenues occupy?

- Are our most important segments saturated?
- If so, are there less saturated segments that would be eager to purchase our current products?
- If not, how can we boost our share of the less saturated segments?

To decide whether your company has a chance to accelerate its growth from current or new customers, address these questions by taking six steps:

- Segment your current customers.
- Identify how much of your revenue comes from each segment:
    - Analyze the broad trends—such as evolving customer needs, changing economic conditions, or new technology—that might boost (or contract) growth in these segments.
- Estimate your company's share of the most important segments:
    - For saturated segments, identify new segments that would be interested in buying your product and interview potential customers in those segments to gauge their level of interest.
- For unsaturated segments, determine the most effective marketing strategies for achieving further penetration.
- Assess the cost, fit with your company's skills, and time to market of the options.
- Pick the option with the lowest cost, best fit, and quickest time to market.

Geography: Same or Different

If your company's product is selling well in the markets where you currently operate, consider whether future growth could come from the locations where you currently operate—or by expanding your company's geographic scope. If you have a small share of your current geographic market, more share of that market could be no further away than boosting your marketing budget, adding more distribution partners, and/or hiring more salespeople.

Sometimes growth can come from taking your show on the road. When Starbucks decided to open coffee shops in China in 1999, it did so in the face of naysayers who assumed that with its thousands of years of tea-drinking culture, the Chinese would be the last people to drink coffee. But 16 years after entering the Chinese market, Starbucks operated 2,000 stores in 100 Chinese cities. Moreover, Starbucks anticipated adding 1,400 more such coffee shops by 2019—including 500 alone in the current year. Starbucks carefully studied the market and saw an opportunity to "introduce a Western coffee experience, where people could meet with their friends while drinking their favorite beverages," according to *Forbes*.

Starbucks decided not to threaten China's tea-drinking culture through advertising and promotion. Instead it selected "high-visibility and high-traffic locations to project its brand image," noted *Forbes*. Starbucks introduced drinks that included local ingredients such as green tea and made young Chinese feel "cool and trendy" through what *Forbes* noted was its stores' "chic interior, comfortable lounge chairs, and upbeat music." Starbucks also used its best baristas as brand ambassadors to China—they trained its Chinese employees and helped establish the company's culture there.

Here are five steps to get you started on sourcing growth from new countries:

- List four countries that best match with your current markets.
- Identify how your product can boost the profits of your distribution partners in those countries.
- Ask potential end users of your product to rank the criteria—for example, price, quality, service —they use to compare suppliers.
- Analyze how well your company does on these criteria relative to competitors.
- Position your product to outperform competitors on the ranked criteria.

Products: Same or Different

One of the most basic sources of growth is to sell new products to your existing customers. The new product can come from acquisition, partnership, or your own product developers. As Northwestern University Kellogg School of Management Professor Mohanbir Sawhney, explained, not all growth is good. Bad growth—such as that caused by subprime lending or acquisitions that add needlessly to a company's complexity—produces short-term revenue growth but longer-term collapse. Good growth, says Sawhney, is organic—from "increased share of [a customer's] wallet, stealing share from competitors, or increasing the size of the market [and maintaining your share]." A case in point is Reliance Jio Infocomm, an insurance claims management firm on whose board he serves. The company gained a bigger share of wallet by adding new services beyond claims management—such as policy administration, underwriting, paying claims, and terminating policies—which its customers wanted.

If you decide that selling the same product to new customers is the way to go, which new customers should you pick? They might be people who have the same pain as your existing customers—say people in New York—who you have not yet tried to contact—for example, Connecticut residents. If you decide that the best growth path may be from selling new products to your current customers, here are four steps that will help you build the right product:

- Ask your customers to tell you their goals and the biggest barriers to achieving them.
- Brainstorm new product ideas that would help your customers leap over these barriers.
- Build a prototype of the best ideas and get customer feedback.
- Turn the most promising ideas into your next product.

If you find it might be faster or better to acquire a company that makes the new product, follow these seven steps:

- Observe the most pressing external and internal challenges facing your current customers and whether they are buying new products or services to help address those problems.
- Identify a list of companies who provide that product or service.
- Determine whether that new market would be sufficiently large and profitable to warrant further examination.
- Assess the capabilities needed to gain a significant share of that market.
- Evaluate whether a merger with one of those companies could yield a competitor with stronger capabilities.
- Investigate how difficult it would be to integrate the candidates' companies into yours.
- Estimate the investment required to acquire the best candidate and its net present value.

Capabilities: Same or Different

Capabilities are business activities—such as new product development, supply chain management, selling, marketing, and service—that help a company to win and sustain long-term customer relationships. When a company introduces its first successful product, it usually builds up the capabilities it needs to meet customer demand as the S-Curve shifts from initial adoption through to maturity and decline. If the company is fortunate, the skills that it develops for the first product will help the company to introduce future products.

This is what Apple was able to do for three products in a row. Under Steve Jobs, Apple was great at product design, marketing, supply chain (led by current Apple CEO, Tim Cook), and building content ecosystems. It first applied those skills to building a better MP3 player—the iPod. Apple first designed a much more satisfying piece of hardware. It also overcame objections to breaking albums into singles by citing the lost revenue from peer-to-peer sharing networks like Napster. As a result, Apple negotiated a deal with producers to make available to consumers a wide selection of music and other audio products. In January 2001, Apple launched this content ecosystem dubbed iTunes that made people want to buy the iPod when it was introduced that October. Moreover, Apple built a supply chain—mostly centered on Foxconn, which could manufacture and ship the product to Apple's retail stores. And Apple applied its advertising and marketing skills to ignite people's desire to buy the product.

With some modifications, Apple applied the same set of skills to build its version of a cell phone—the iPhone—and a tablet, the iPad. To make the iPhone compelling, Apple created a content ecosystem—the App Store—that offered economic incentives for developers. Moreover, Apple persuaded AT&T to be the first telecommunications carrier to support the iPhone—another manifestation of Apple's partnering capability. Since it introduced the iPad in 2010, the question for Apple is whether that same set of capabilities can enable the company to capture a new growth opportunity to replace the profit that will be lost as the iPhone matures. Perhaps Apple's capabilities are less useful now that Steve Jobs is no longer its CEO. And that could mean Apple needs a new CEO or needs to create new capabilities in order to capture new growth opportunities.

Netflix has not enjoyed the luxury of being able to rely on its capabilities for three products in a row. Instead, Netflix added new capabilities in order to shift from DVD-by-Mail to online streaming. Investors approve—its stock price more than tripled in the five years ending January 2016. DVD-by-Mail depended on such capabilities as the wholesale purchasing of a wide variety of DVDs, as well as building and operating a system to track customer orders and route delivery and pickup of DVDs between Netflix and customers' mailboxes.

When Apple introduced the iPhone in 2007, Netflix CEO Reed Hastings realized that DVD-by-Mail would go the way of the Dodo—and soon people would demand to watch videos on their smartphones. Hastings also realized that Netflix would encounter an insurmountable challenge—obtaining early access to movies and TV programs produced by others. So rather than depend on suppliers who viewed it as a rival, Netflix produced its own content. While creating that capability was a huge challenge, the popularity of shows like *House of Cards* and *Orange Is the New Black* suggests that Netflix succeeded. Hastings bet over $100 million—ordering 26 episodes of *House of Cards* (based on a BBC original that came up for auction in 2012).

This bet flowed from Netflix's 2012 analysis of the habits and preferences of its 29 million subscribers. Hastings concluded that Netflix would be able to recoup its *House of Cards* investment because so many of its subscribers watched Kevin Spacey and David Fincher movies and political thrillers. But along with the bet on producing its own content would come a phasing out of capabilities on which it depended to operate its DVD-by-Mail business—such as wholesale purchasing of DVDs and operating a network to pick up and deliver those DVDs to customers' mailboxes. While phasing out those activities, Netflix needed to add another new one—the ability to partner with a complex array of broadband service providers. Given that its consumers consume as much as 37% of all bandwidth during peak streaming hours, such partnerships are essential for Netflix's ability to operate its online streaming service.

If you see such a growth opportunity, here are four steps to make this work for your company:

- List the skills needed to succeed in the new market.
- Assess the fit between those skills and the ones at which your firm excels.
- Develop a plan to hire or partner to get the skills you'll need.
- Manage the process of changing your company's skills.

On the other hand, if you are looking for new markets where your skills would enable you to take market share, do the following:

- Make a list of skills at which your company excels.
- Look at big markets where those skills could yield a better product.
- Build a prototype of that product and get feedback from potential customers.
- Estimate the time and cost needed to bring that product to market.

Culture: Same or Different

In some companies—think Apple under Steve Jobs—the CEO was the source of new product ideas. That works well until the CEO stops coming up with good ideas or leaves the company. To supplement the CEO's creativity, other companies encourage all employees to come up with growth ideas. For example, 3M is famous for letting employees spend 15% of their time on projects that interest them—that's how the Post-It Note was born (it solved an employee's problem with bookmarks falling out of his church hymnal). 3M encourages its people to come up with new ideas and pressures its divisions to derive 30% of their revenues from products introduced in the last three years.

Can you change your culture to encourage your employees to create more growth opportunities? Intuit, the maker of accounting software such as TurboTax and Quicken, created an idea collaboration portal that lets employees post ideas, get feedback, coaching and suggestions—and even sign up people to help implement these. And the beauty of this portal is that all this idea generation can happen without a manager getting involved. According to Intuit's founder, Scott Cook, by 2012 this portal had turned 30 ideas into "shipping products and features" that boosted Intuit's revenues. Cook, who joined Bain & Co. after earning his Harvard MBA, described his passion for assuring that Intuit was capable of both strengthening its core business and creating innovative new ones. His key finding was that big companies must create a culture of frugal experimentation.

This was a problem that Cook began studying in 2008. He believed that there was no market category that kept growing for so long that an incumbent company could avoid eventually perishing unless it hitched its wagon to a new market. As an example, Cook cited Microsoft that "has been unable to invent successful new disruptive businesses—causing its growth to slow down." Cook found it strange that large successful companies could not invent new industries. After all, he reasoned, they had the best people, a high profit flow, the largest customer base, and the broadest channels of distribution. And yet, Cook noted, if you look at enterprise and consumer technology companies, the game-changing innovations almost never come from the big incumbents such as Oracle, SAP, and Microsoft. With the exception of Apple in the 2000s, all the big innovations came from start-ups.

Cook decided to investigate whether there were any large companies that have been able to buck this trend. Cook studied companies such as Hewlett Packard, 3M, Procter & Gamble—where he worked, and Toyota Motor. He found that the common thread during the periods of their most successful product and process innovations was the systems they put in place to encourage employees to conduct frugal experiments.

Cook did not see himself as being a product champion like Jobs or Amazon founder and CEO Jeff Bezos. Instead, he strived to create a company that would be able to continue to create new growth businesses long after he had left Intuit. Intuit invented new businesses by creating an environment that encouraged people there to come up with new business hypotheses and test them against feedback from customers. One example was a debit card for people without bank accounts. An Intuit finance employee—not a "product person"—noticed that the people who need tax refund checks the most are often ones who don't even have bank accounts. She came up with the idea of giving those people debit cards: Intuit would accept the tax refunds into its accounts and transfer the funds to the debit card. She thought of the idea in February and wanted to test it by April 1, before tax season ran out on April 15.