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More Holes Than Cheese

Embracing the Growth Imperative

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At a Glance

Despite today's challenging environment, there are companies around the world—in every industry, sector, and business—that are managing to grow quickly and to build an enduring lead over their rivals. What is the secret of these fast-growing companies?

In essence, leaders at these organizations understand that there is a *growth imperative.* For them, there is always more commercial space to be conquered. There are always more holes than cheese.

Where To Find Growth

Companies pursuing growth should have three major priorities: expanding the core business, exploiting adjacent opportunities, and entering completely new businesses.

How to Generate Growth

Knowing which strategy to deploy—and when—requires a careful sizing of the market opportunities, an understanding of the competitive landscape, a deep appreciation of the need for differentiation, a willingness to challenge the status quo, and a tolerance of and honesty about failure.

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Corporate leaders can be forgiven for taking an increasingly cautious view of the future: growth in the developed markets remains slow while growth in the emerging markets is falling from a once-great height. But those who fail to pursue top-line growth and, instead, focus on cost cutting to improve the bottom line risk falling behind more enterprising competitors. Around the world, and in every industry, sector, and business, there are companies managing to grow fast and to build an enduring lead over their rivals.

BCG's research shows that the gap in operating margin between corporations in the top-performing quartile (companies achieving high growth *and* high operating margins) and those in the bottom quartile has widened dramatically as the global economy has become ever more volatile and unpredictable. In 1950, the gap was 13 percent. Sixty years later, it was 59 percent.

What is the secret of the fast-growing companies?

In essence, leaders at these organizations understand that there is a *growth imperative.* This drives them forward. They see opportunities everywhere, pursue them relentlessly, and never think that their job is done. For these leaders, there is always more commercial space to be conquered. There are always more holes than cheese.

Why Growth Is Imperative

In the boom years, before the financial crisis struck in 2008, companies could succeed simply by riding market growth. Now, however, CEOs have no such luxury. Competition is more intense than ever—not least because global challenger companies from emerging markets have burst on the scene just as global growth has slowed. The presiding law is Darwinian natural selection. You either grow or you die.

Growth itself is not a strategy, however, and it cannot be the sole focus of any company. As Edward Abbey, an American essayist, warned, "growth for the sake of growth is the ideology of the cancer cell." Before anything else, companies must win what we call the "right" to grow—and this means building a sound operational foundation.

Ultimately, however, growth—or, rather profitable growth—is the best way for companies to create sustainable economic value. BCG's analysis reveals that over a five-to-ten-year horizon, 60 to 75 percent of total shareholder return is derived from a company's profitable growth. In other words, profitable growth is much more important than even earnings or dividend growth.

And growth has an importance that extends far beyond total shareholder return. It is crucial for sparking a winning spirit within a company, which is especially valuable in tough times since it creates a virtuous circle. It provides companies with economies of scale and the advantages that come from a broadening network of customers and suppliers. It also generates the funds required to invest in innovation and experimentation—which can eventually lead to business expansion, greater market share, and still more profits. By contrast, the absence of growth can be a straitjacket, inhibiting a company's creativity and triggering its downward spiral, or doom loop.

Perhaps most important of all, growth helps to attract and retain the most talented people by fostering a feel-good, can-do culture. Every era has its desirable corporate destination—its "place to be." In the 1950s, the industrial goods companies attracted the smartest graduates; in the 1980s, the technology companies topped the list of hot employers; and today, the leading online companies have a special draw on the best and the brightest. What do all of these sectors share in common? They experienced exploding growth when they commanded the labor market.

Growth creates more and better opportunities for everyone. In fast-growing companies, promising young thinkers and doers do not have to wait in line for promotions behind less innovative but more senior coworkers. In slow-growth (or no-growth) companies, by contrast, even the best and brightest might have to toil for years before a superior falls under the proverbial bus and an opportunity opens up. So it should come as no surprise that many of the young high-value employees at these organizations become frustrated and, in the end, choose to move elsewhere.

Where To Find Growth

Even though global growth has slowed, individual companies are finding the opportunities for growth as great as ever: there really are more holes than cheese. It is just a question of knowing where to look.

The first priority of any company that commands one or more competitive advantages over its peers should be expanding the existing business—that is, maximizing the core. This can be accomplished in a number of ways, such as boosting demand by better understanding the needs of customers, increasing the effectiveness of the sales force, or fine-tuning prices.

Another way is to offer improved products and services to existing and underserved customers while developing underused distribution channels to reach them. Companies embracing this strategy include soup manufacturer Campbell's, consumer-goods giant Procter & Gamble, and premium automotive manufacturers such as Audi, BMW, and Mercedes-Benz. All have used their existing brands to strengthen their product portfolios and to appeal to larger groups of consumers.

A second priority is to look beyond the core business to adjacent opportunities—in particular, those relating to new distribution channels, new markets or customer groups, or new product or service categories. For example, digitization—the active use of the Internet, mobile technologies and increasingly powerful information-processing machinery—provides a significant growth opportunity. Indeed, it may even be a "must" to survive. By 2016, BCG calculates that there will be 3 billion Internet users—roughly half the world's population. Over time, we expect that almost all businesses will need to digitize, but the pioneers in this realm will be the most likely to achieve the highest growth.

BCG's analysis reveals that revenue growth at traditional companies maintaining an active Internet operation can be up to 22 percent higher than growth at their less-connected rivals. In the cutthroat competition of the U.K. retail sector, John Lewis is a clear standout as a successful example, with convincing and well-aligned offers online as well as offline. Although there are real worries about self-cannibalizing—with online sales simply supplanting traditional sales—they are often exaggerated. And, in the end, it is better to self-cannibalize than to be cannibalized by a competitor.

Globalization offers many growth opportunities, too. Today, rapidly developing economies account for more than 70 percent of the world's growth. Across many industries, globalizing companies—Volkswagen, Procter & Gamble, Unilever, and Chevron among them—are clearly outperforming their more locally or regionally focused competitors.

Almost all businesses can take advantage of globalization—whether they are already large multinationals or purveyors of local products and services. Companies that systematically build strong positions in the top 20 to 30 national markets can expect significant growth for years to come. Obviously, this is easier said than done: such expansion cannot be achieved by simply rolling out existing products and services to new customer groups. To be successful, companies must captivate customers by tailoring—literally customizing—products and services to local tastes and requirements. And they need to take a long-term perspective, understanding that building businesses in the emerging markets takes time.

As they look for opportunities to expand, companies must take care to consider all major customer groups and, therefore, all price points. For example, it might be commercial suicide to overlook lower-price consumers, leaving them to be served by companies from emerging markets. Such a move might mark the beginning of the end, as many European and U.S. companies learned in the 1970s when Japanese companies started entering the consumer electronics business—and as some Japanese companies are learning now that Chinese and South Korean companies are on the rise.

In order to exploit different price points, companies must create distinctive products with dedicated brand, marketing, and sales strategies. Unilever, Pernod Ricard, and Diageo are showing how to use a range of labels to serve various customer groups at varying price points. Renault has gained new customer groups with Dacia, as has Volkswagen with Audi, Seat, and Skoda. Even among industrial goods companies, the use of several brands at different price points has proved very successful, as Otis Elevator, Shanghai Electric, and Bharat Forge have shown through the performance of their subsidiaries and joint ventures in China.

The third growth priority is to enter completely new businesses. This carries more risk than expanding existing or entering adjacent businesses—and many companies have failed to diversify profitably. Even so, there are a number of very successful companies that have pursued forward or backward integration, rolled out their technology into new areas, or moved into completely unrelated businesses. Here, a key success factor is understanding that new businesses are likely to require significantly different business models than those for the existing businesses. As such, they will probably require different types of managers.

Apple is a classic example of a company that migrated to a new business. It began as a pure-play computer company in the 1970s before bouncing back in the 1990s from a decade of decline. In the process, Apple has transformed itself into a consumer electronics and services company with the launch of the iPod, the iPhone, the iPad, and related services.

In the emerging markets, various conglomerates—such as Tata from India, Votorantim from Brazil, or Samsung from South Korea—have demonstrated that entering and running new and often unconnected businesses is a viable strategy. Other firms that have successfully embraced this approach operate more like holding companies that buy businesses and develop them over time; among these are Temasek Holdings from Singapore and Khazanah Nasional from Malaysia, and Danaher Corporation and Koch Industries from the U.S.

How To Generate Growth

Growth does not just happen. Even when CEOs have found promising sources for growth, they must then know how to generate it. Will they improve their pricing or their product mix, create innovative products and services, engage in M&A or partnerships, or invest in new business models?

Certainly, focusing on the core or adjacent businesses carries the highest probability of success. BCG's analysis shows that nearly 70 percent of companies that ranked among the top third by total shareholder return generated their growth by focusing on existing businesses or those adjacent to their core. Of these, most companies expanded geographically or placed bets on several of their business units—spreading their investments and increasing their opportunities for success. By contrast, just 40 percent of the top companies opted to engage in M&A. And when they did, they made a series of small and medium-sized acquisitions rather than large, bet-the-farm transactions—which tend to destroy rather than create value.

Knowing which strategy to deploy—and when—requires careful planning, a careful sizing of the market opportunities, an understanding of the competitive landscape, and a deep appreciation of the need for differentiation. Also, as the path forward can never be determined with certainty, growth always requires an ability and willingness to challenge the status quo; to try out new products, services, and processes; to be persistent; and, ultimately, to be tolerant of and honest about failure.

In our experience, a prerequisite for success is what BCG has termed the "accelerator mindset." Leaders or companies with this outlook are ambitious, audacious, adaptive, and, when necessary, aggressive. Steve Jobs (the late CEO of Apple), Lee Kun-Hee (the chairman of Samsung Electronics), Ferdinand Piëch (the chairman of Volkswagen), and Ratan Tata (the former chairman of Tata Group) come to mind.

The Growth Imperative: No Time To Lose

Today, too many companies, cautious about the future, are playing it safe—focusing on the bottom line and managing for cash. But while it might be tempting to wait for the dust to settle or conditions to improve, the challenges that make today's business environment so confronting are not temporary. They are the new status quo. And, indeed, today's volatile business environment may be the perfect base for growth.

In the end, companies that fail to invest for growth will lose, often to new competitors unburdened by legacy business models and brimming with confidence. Many of these new companies are state-owned or family-owned and are often willing to build market share at the expense of short-term profits.

Even for the most-established companies, it is essential to understand the growth imperative. Opportunities abound, almost everywhere, and they must be seized. If you don't do so, someone else will.

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