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Steady as it grows

Strategist Michael Treacy contends that any company with the courage, smarts and discipline necessary to seize its chances can achieve double-digit growth. In 2003, that means refocusing the company—and its

JUST A FEW YEARS AGO, CORPORATE AMERICA—SEEMED TO BE floating in money. Growth seemed a foregone conclusion as the high-tech sector introduced one innovation after another, and companies spent billions to streamline their processes and dazzle their customers. But when the tide began to ebb, more than a few corporations found themselves beached, bloated, and helpless as their dreams of endless growth receded. Strategist Michael Treacy argues, in his newly released *Double-Digit Growth: How Great Companies Achieve It—No Matter What* [Penguin Putnam], that companies can avoid this fate and grow consistently if they simultaneously pursue up to five different growth strategies. The former professor at the Sloan School of Management at the Massachusetts Institute of Technology, who gained fame as co-author of *The Discipline of Market Leaders,* has another message for CIOs: In the near future, companies will be investing less on creating innovative business processes and more on creating innovative products. That shift will require IT to invest in different technologies, align itself along new priorities, and understand what's needed for growth. Contributing editor Perry Glasser and executive editor Allan

PHOTOGRAPHS BY JASON GROW

Michael Treacy
Prof. Romer is the STANCO 25 Professor of Economics at the Graduate School of Business at Stanford University and a Senior Fellow at the Hoover Institution. The founder and chairman of Aplia, Inc., a San Carlos, Calif., software firm that designs and markets productivity software for the classroom, Romer received his Ph.D. in economics from the University of Chicago in 1983.

technology efforts—on research, development, and product innovation. ***By Perry Glasser and Allan Alter***

Alter recently chatted with Treacy, who is a cofounder of GEN3 Partners Inc., a product innovation consulting firm based in Boston and St. Petersburg, Russia.

CIO INSIGHT: You say any company can grow steadily and permanently at a double-digit growth rate, and that there are no excuses, even in hard times. How is it possible under these difficult conditions?

TREACY: Everyone has to recognize that the growth of the market you compete in is only one of five ways in which a company can grow. During good times, if you're in a growing market, then you rise with the tide. During bad times, you sink with the tide.

But there are four other important ways to grow a business. First and foremost, you can grow simply by holding the base of customers you've already got. You can grow by taking market share. You can grow by moving into adjacent lines of business, and by moving into entirely new lines of business. Just because the market isn't growing doesn't mean your company can't grow.

So if it is possible to grow by using a variety of approaches, why do most companies fail to achieve double-digit growth?

Because they don't look at growth as a portfolio problem. Most companies produce a static, limited growth plan. They identify the four or five initiatives they're going to put in place to establish growth, and bet everything on them. If they succeed, that's great. If they fail, they're out of luck. All the companies that grow steadily at double-digit rates do two things that are very different. First, they look for growth in each of those five areas of growth. Second, they recognize that every growth initiative is uncertain. Therefore, to manage the uncertainty, you need to have a diversified portfolio of initiatives.

5 ELEMENTS OF A GROWTH PORTFOLIO

- BASE RETENTION
- SHARE GAIN
- MARKET POSITION
- ADJACENT MARKETS
- NEW LINES OF BUSINESS

Name a company that does this well, and one that does this poorly.

A company that does this well is Dell Inc. The growth rate in its core market of personal computing dropped dramatically in 2001, but it hasn't interrupted Dell's spectacular growth. Dell shifted into a series of adjacent markets, including storage, printers, services and network devices, and continued to be aggressive at taking market share. And Dell happens to be very strong at retaining its base.

If you want to see an example of a firm that has done it miserably, look no further than Corning. The telecom bubble created enormous demand for both its fiber cable and its flat-screen technology. But they didn't use that good fortune to establish a broad-based growth strategy. They sold off lower-tech businesses that were growing at a reasonable rate because they wanted to concentrate everything on optical fiber cable. So as soon as the telecom bubble burst, they sank right back down to $3 billion to $4 billion of revenue. Worst of all, Corning had to declare a loss equal to its last 20 years of profits.

You argue that achieving double-digit growth in 2003 requires focusing less on process innovation and more on product innovation. What's going on now that's causing the sea change?

For the past 15 years, we've poured money into innovating how our companies do business, in our operations. And I think most senior managements recognize we've overinvested in that form of innovation. We are not seeing the results we expected. Broad-based enterprise applications and solutions have not paid off. Supply-chain integration has turned out to be a very difficult investment to pull off. Information systems have lost credibility with the executive team in many organizations, and that's reducing the investments in information systems in general.

So what corporations have done is refocus on their traditional form of innovation, which is product innovation. R&D budgets have not declined during this recessionary period, not for a single quarter. Companies continue to increase their investment in product innovation because innovation is an absolute requirement. If you don't deliver better value, you die. And if I can't get that innovation to occur in how I do business, then I'm going to innovate in what I sell.

In that case, CIOs need to realign IT to upport a changing strategy portfolio, and

to do more to support product innovation. Let's talk first about the strategy portfolio. What's the simplest way to grow your business among the five ways you mentioned?
The simplest way is to stop shrinking. Focus on base retention: How do I re-win the business that I got from my clients last year? As the incumbent, you have certain advantages over anybody else: You should have better information about the client than your competitors. You should also have an economic advantage over your competitors. Your customer will incur in some cases a very large switching cost if they move to somebody else.

Aren't you leaving out loyalty?
There's a myth out there that you can build customer loyalty programs. That's utter nonsense. Customers are not loyal to their suppliers. They're loyal to themselves; they want the best value. How many CIOs have put into place very narrowly focused point solutions that would allow a company to collect the right information and then translate that information into better value for the client?

Look at Harrah's Entertainment. The company has grown at double-digit rates with a single strategy of focusing on heavy gamblers. Harrah's collects information about heavy gamblers and their needs, wants and desires. If someone is turned on by a stretch limo, a big hotel suite, fresh flowers in their room, that's what he gets. If what turns a customer on is to be greeted personally by the same concierge and have the same cleaning staff and the same personal valet, then that's what he gets. In other words, as an incumbent, Harrah's exploits better information to deliver better value.

Product development starts with research. What should we be doing differently here?
Most senior executives believe that if we put together enough very smart people, and pour in enough money and other resources, good things will come out the other end. That is no way to conduct corporate research. What's missing is a methodology for innovation. How do you put structure to the process of creating breakthrough thinking and breakthrough ideas? And this is where the Russians, of all people, actually have a leg up on us.

TRIZ is a Russian acronym that stands for "theory of inventive problem-solving" It was created around 1950 by a man named Genrich Altshuller from Azerbaijan. Altshuller's key insight was this: To improve the innovation process, do not study inventors, study inventions. Don't try to understand how an Albert Einstein works, try to understand instead the pattern of invention within any area of science, research or engineering. So he and his students analyzed 2 million patents and identified patterns that anybody can use to foretell where technical or product innovation in an area is going.

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Take the way we measure distances. The first thing you have is a solid object—a ruler. Next is a carpenter's multijointed folding ruler, then a flexible tape measure, and finally a measuring device that uses laser beams. It's a classic example of the evolution of a technology that's becoming more dynamic.

And that's just one of many possible evolutionary paths for products?
Exactly. More than 100 large-scale trends and subtrends have been identified. If you're going to innovate in any product area, plot the progress of that product's evolution on the relevant technology trend, because that will point you toward where the next innovations will occur.

How do you use IT to help companies use TRIZ to develop innovative products?
TRIZ is still so new that effective tools to assist TRIZ practitioners don't yet exist, but I am quite certain tools are going to grow. One powerful tool could be a specialized patent search engine that looks for innovations in other fields that might apply to your business.

How else can technology support R&D and innovation?
One big enterprise system that's gotten very little attention, outside of automotive, aerospace and some of the heavy engineering-oriented industries, is product lifecycle management. It covers everything from product conceptualization at the front end to product engineering, sourcing, manufacturing engineering, and service and support.

There are opportunities to speed up time to market, to improve the way companies make decisions about where they spend their dollars on product innovation and there are tools that can improve inventiveness, the ability to bring out breakthrough products consistently.

The high-tech industries—pharmaceuticals, information technology, aerospace—have made these investments because they know they live and die on product. The auto industry has done it. But other industries have invested very little in improving how companies create innovative products, and that's a very important way that information systems can have an impact on growth strategies. There's just an enormously sophisticated suite of software out there to be used.

Sounds simple. Why haven't executives done this before?
If you say to a senior team, "Look, we've got to cut costs 10 percent next year," most of them have the discipline to do that.

But if you ask the same management team to grow the business by 10 percent, they will tell you, "Well, that's not something within our control. We might be able to do it, but we might not." They don't have the same discipline for growth they have for cost-cutting. They don't know what information they need. They don't know what analyses to make. They don't know what decisions they need to come to. The starting point is always better information. The starting point is to take the budget statement and explode out that revenue line so that it delivers diagnostic information about where your growth is coming from. You need to be able to understand how much of your revenue this quarter, this month, comes from base retention. How much is from gaining market share from the bad guy? How much is from market positioning or market growth?

Once you've got that data in place, you then establish stretch objectives for the management team in each of those areas. If we're in a market where I can count on 85 percent of last year's revenue as this year's revenue, how do I move from 85 to 90? The next thing you do is put tactics in place that will get you from 85 to 90.

If you're the CIO, how does your own organization need to change?
For at least 30 years, the IT profession has been associated with cost management and productivity. We know a lot about how to do that. The IT profession now needs to become just as proficient in understanding how organizations drive growth.

If a company is not growing, what should stakeholders do if management says, "The market has turned against us"?
Get a new management team. These guys that say, "We didn't achieve growth this year because the market didn't grow," I want them to go back and say, "Remember those good years? I didn't cause that either." That would make a revolution, wouldn't it?

STEADY GROWTH COMPANIES

Who says 10% growth is impossible? These firms have earned a compound annual growth rate in excess of 10% from 1997 to 2002.

GROWTH CELEBRITIES

WAL-MART STORES INC.
15.6%

HARLEY-DAVIDSON INC.
18.4%

STARBUCKS CORP.
25.9%

DELL INC.
23.5%

EMERGING STARS

H&R BLOCK INC.
27.2%

LOWE'S COMPANIES INC.
21.2%

MEDTRONIC INC.
17.0%

JOHNSON CONTROLS INC.
13.9%

LITTLE KNOWN SUCCESSES

MOHAWK INDUSTRIES INC.
(carpets)
12.4%

PAYCHEX INC.
(payroll services)
19.0%

OSHKOSH TRUCK CORP.
(truck manufacturer)
20.6%

BIOMET INC.
(orthopedic products)
13.8%

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