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THE ESSENTIALS FROM BOOZ & COMPANY

Billion-dollar Ideas: Finding Tomorrow's Growth Engines Today

To create growth in uncertain times, use this disciplined and market-focused methodology. It can help you discover and distill attractive new ideas and build a business case for implementing the best of them.

BY GREG LAVERY AND CHRIS MANNING

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by Greg Lavery and Chris Manning

After several years of survival mode for many companies, growth is back on the agenda. But the requirements for success have changed. In today's conditions — uncertain recovery, limited capital, and many new competitors — companies must find new ways to grow.

There's no going back to the growth ideas that were bouncing around the organization before the global financial crisis. Executives need a robust framework to help them rapidly develop a long list of opportunities and then choose the very best ideas from it. The process must be comprehensive, efficient, rigorous, collaborative, and focused on "market-back" opportunities designed to meet customers' needs. And it must be bold — the company must resist the temptation to do what has been done in the past.

Booz & Company has created a methodology for this, based on five lenses used for evaluating growth strategies. The five lenses — share of wallet, new regulations, technology and applications, distinctive capabilities, and business models — represent discrete and complementary ways to find and judge unconventional and unseen ideas. This approach has already been used successfully by companies in many industries and geographies.

A Process for Thinking Big and Bold

Too often, companies fail to imagine and fully explore all the potential options available to them, because they have been so intently focused on existing businesses and customers. They rely on conventional growth strategies such as mergers and acquisitions, geographic expansion, competitive pricing, and product or service line extensions. Although all these growth paths are well trodden, they also have limitations. For example, none of them are attractive when capital markets are tight and consumer demand is weak. But there are many new avenues for transformational growth that could be far more lucrative than the current strategies and that could be achieved with reasonable effort.

In seeking these avenues for growth, it pays to think big and bold. Consider how many of the largest, most iconic companies in the world — old and new — achieved their greatest growth when they entered and conquered totally new markets. For example, the Nokia Corporation, the world's largest maker of mobile phones, started out in the 1880s as a manufacturer of cables, paper, and rubber tires. It was only when Nokia began separating from its roots as an industrial conglomerate to focus on electronics, and eventually telecom, that growth took off.

The Toyota Motor Corporation started out in the textile business making threads and looms. In the 1930s, Kiichiro Toyoda, the founder's son, then head of Toyoda Loom Works, decided to branch into automo-

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biles, which was considered a risky business at the time. American Express Company was an express mail company before it moved into financial services. Before Nintendo Company grew into a global powerhouse in digital games, it made playing cards and ran a chain of hotels for Japanese and other Asian markets.

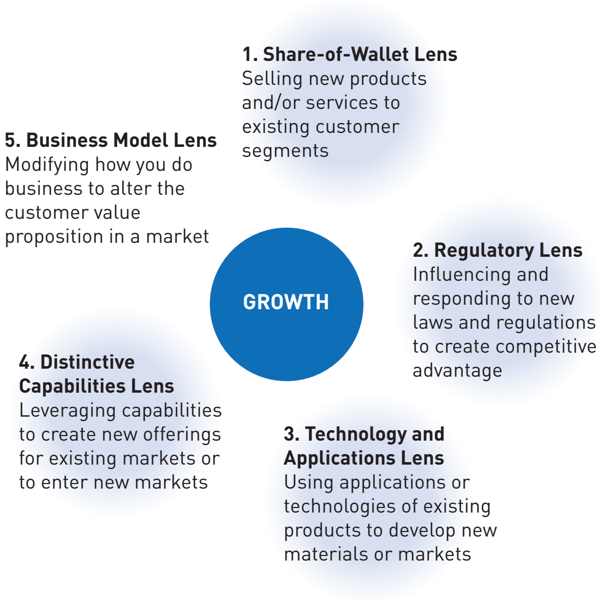
These examples are not meant to suggest that wild leaps into new businesses and markets are right all the time and for all companies. For every Nokia, American Express, Toyota, or Nintendo, there are scores of companies that failed to achieve their new growth aspirations. Failure can often be traced back to the ad hoc processes with which many companies determine their growth strategy. When the search for new growth ideas is too unfocused, the best opportunities do not surface, and valuable time and resources are wasted. An unfocused process can also fail to take into account a company's existing capabilities and assets. The result is a lack of coherence: ideas that require investment in capabilities that fit well with only one part of the company's portfolio. This can hobble a company, especially if its competitors are more coherent. An ad hoc process can lead companies to implement new ideas based on flawed or overly aggressive assumptions. It can enable executives to revive old ideas that, for good reason, never had support in the first place.

By contrast, an effective methodology can reduce the risks associated with seeking breakout growth, maximize creative thinking, and ensure that companies direct their time and resources toward the best possible opportunities. Investment ideas stretch beyond conventional thinking; they are more comprehensive, and not limited to the obvious proposals. The process also ensures that time, resources, and management attention are deployed with care. Even the most extreme breakout growth strategies are coherently aligned with the rest of an organization's portfolio of assets and capabilities. The assessment criteria for the "short list" of ideas is more rigorous: the process helps keep the discussion sound, unbiased, and clearly articulated. The process is a collaborative effort, tapping a broad array of executives and energizing the whole company. Projects chosen garner strong implementation support. It is also an explicitly market-focused process. The opportunities that are implemented have a strong chance of securing a first-mover advantage or another competitive advantage in the marketplace.

When a mining services company used the methodology in its quest to double revenues in three years, it identified a set of 13 opportunities, each of which had the potential to increase its annual revenue by US$1 billion. This reframed the boundaries of the business: The methodology helped executives see that although the company had a 40 percent share of a low-

Exhibit 1: **Five Lenses for Evaluating Growth Opportunities**

In a comprehensive process for assessing "big and bold" growth ideas, look for five types of opportunities that you would probably not consider in conventional strategy work.



Source: Booz & Company

growth market, it actually held less than 5 percent of a much larger redefined market with numerous untapped, high-growth opportunities.

Five Lenses for Growth

The Growth Lens methodology has five lenses that can be used, separately and together, to expand a company's perspective on growth. The goal is to challenge assumptions about the size, shape, and definition of markets through a facilitated, creative, and rigorous process of business idea generation. (See Exhibit 1.)

1. Share of Wallet

The goal of this lens is to determine how to capture a larger portion of existing customers' spending by selling them more products and services, and a wider variety of them. The core question associated with this lens is, *What other products or services do our customers buy or want that we could potentially provide?*

For example, retail banks today provide a wide range of products and services beyond traditional lending, checking, and savings services; these new offerings include insurance products, retirement planning, and wealth management. The "financial supermarket" model offers one-stop shopping. When it works well, it increases a bank's share of wallet and customer retention, and lowers sales and marketing and customer acquisition costs. These savings can be shared with customers in bundle or volume discounts.

Share-of-wallet strategies require a deep understanding of existing customers and the ability to cross-sell and raise profit margins across a full suite of financial services, which is why today's banks are investing heavily in data mining and analytics.

Automobile manufacturers in many countries have repeatedly expanded their share of wallet by moving beyond making cars to distribution and sales. Some have gotten into sales of new and used vehicles through company-owned and franchised dealerships. Repair services and aftermarket parts sales are also a common approach. Some companies have grown their share of wallet by adding financing, leasing, insurance, navigation services, and roadside services to their business portfolios. In each case, they found and capitalized on new and profitable growth opportunities. As a result, the value captured by auto manufacturers through the sale of a new car can be relatively small, compared to the value that will be generated during the asset's life cycle. These manufacturers have cleverly created high switching costs for customers (for example, by installing on-board computers that determine servicing intervals and must be reset by branded repairers), which protect this future upside.

The Virgin Group demonstrates a different share-of-wallet strategy. Virgin became a global conglomerate of 300 consumer companies, including airlines, mobile phone service providers, and fitness centers, by emphasizing brand recognition and customer loyalty. Virgin grows by continuously looking for new growth in a wide variety of lifestyle markets.

To be profitable, these share-of-wallet opportunities must be clearly defined, and their link to your current strategy and capabilities must be clearly understood. Consider the story of one organization, a successful construction equipment rental business whose customers were mainly local building contractors and construction tradespeople. The firm sought to extend into a "party supplies" rental business, providing tables, chairs, and utensils for social gatherings and events. Although the two businesses shared some elements, they had two very different target markets, and the new business failed. After some reflection on its share of wallet among contractors and tradespeople, the organization then successfully expanded into new businesses that served its original customers.

2. New Regulations

The regulatory lens looks for externally imposed changes in market conditions. Along with government regulation, this lens includes the influence of nongovernmental regulatory advocacy groups, and the voluntary initiatives of large companies that force competitors to follow them. The core question associated with this lens is, *How can we shape or respond to the regulatory environment to create new and profitable business opportunities?*

New laws are the most common stimulus for new growth ideas from this lens. For example, the emergence of regional and national emissions trading programs around the world has created a vast array of business opportunities, from energy efficiency retrofits in buildings to carbon trading. Many companies in manufacturing and services businesses are tapping into this opportunity. JPMorgan Chase & Company is an outstanding example. It found a growth opportunity in green regulations when it decided to develop its carbon credit trading capabilities to participate early on in the rapidly growing market for these credits. That market has grown from about $12 billion in 2005 to $140 billion in 2009, an 80 percent compound annual growth rate.

A combination of pressure from NGOs and accelerating green consumerism has inspired market leaders such as Walmart and Procter & Gamble Company to become market leaders in environmental sustainability. Both Walmart and P&G impose strict sustainability requirements on their suppliers. The large buying volume and market power of companies like these change industry standards and affect consumer goods companies in many markets. For example, when Walmart decided it would sell only concentrated laundry detergents to use less shelf space, increase logistics efficiencies, and lower costs, the move precipitated a shift that affected every detergent manufacturer.

Companies can proactively shape the regulatory environment, too, by influencing government actions and industry operating standards. When they do this and successfully shift the playing field to their advantage, they can prosper. For instance, the Xerox Corporation's competitors played an influential role in the U.S. Federal Trade Commission's decision to force Xerox to license the patents that had enabled it to monopolize the plain-paper copier business in the 1970s. This opened the market to low-cost Japanese competitors, such as Canon and Toshiba, and high-end copier companies, such as IBM and Kodak.

3. Technology and Applications

The technology and applications lens looks for ways to apply existing products and technologies to gain entry into new markets. The core question associated with this lens is, *Where could we use existing products or technologies to create customer value in a different market?*

Stanley Black & Decker Inc. has successfully applied its electric motor technology, originally developed for home power tools, to a vast array of other products, including toothbrushes, to expand its markets and capture new growth. The Kimberly-Clark Corporation has used its technology in paper manufacturing to create an expanded portfolio of "adjacent" products that rely on the same or similar technologies (feminine hygiene pads, diapers for children, paper towels, and floor cleaning products). Today, all are important drivers of growth. (See Exhibit 2.)

The power of this lens derives from the fact that the products and technologies that will generate the new growth are already in hand. Often the company already has a competitive advantage and recognition in the market by virtue of its existing products — many of which are proprietary. All that is necessary is to deploy them in new ways.

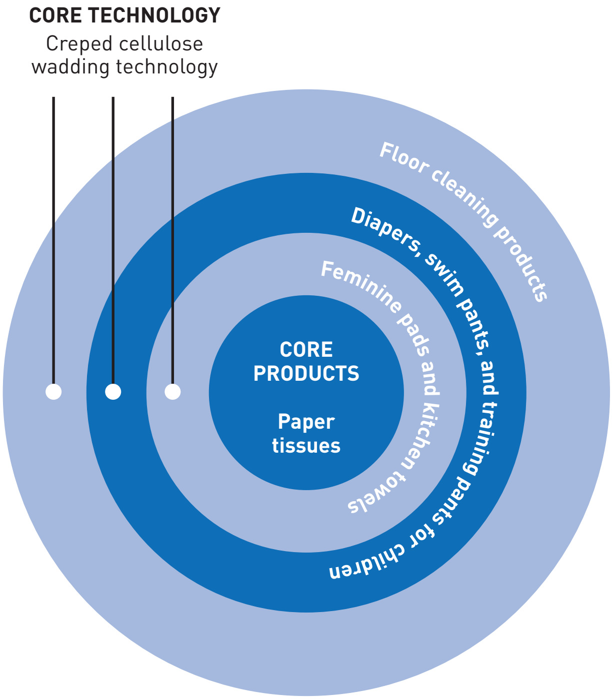
Church & Dwight Company, the household products manufacturer that owns the Arm & Hammer brand, broke out of its bicarbonate-of-soda cleaning niche when it tapped into the consumer demand for nontoxic products and started promoting baking soda as an odor-eating air freshener. Today, Arm & Hammer–branded products include baking soda–based toothpaste, laundry detergent, underarm deodorant, and kitty litter freshener. General Electric Company's Ecomagination initiatives are similarly capturing a variety of new revenue streams and profits by meeting green demand for products with lower carbon and toxic footprints in both industrial and consumer markets.

4. Distinctive Capabilities

In their book *The Essential Advantage: How to Win with a Capabilities-Driven Strategy* (Harvard Business Press, 2010), Paul Leinwand and Cesare Mainardi argue that every successful company relies on a group of three to six mutually reinforcing distinctive capabilities, that

Exhibit 2: **Technological Adjacencies at Kimberly-Clark**

Kimberly-Clark began with a core business in paper tissues, and a related technological capability. This became the basis for its expansion strategy into new products that made use of this technology (along with other relevant capabilities from the tissues business).



Source: Booz & Company

enable it to create and execute corporate strategies that competitors cannot easily meet or beat. For example, Walmart's capabilities — which include aggressive vendor management, point-of-sale data analytics, superior logistics, and rigorous working capital management — have enabled it to pursue a low-price/high-volume strategy that no other retailer has matched. The core question associated with this lens is, *How can we use our own distinctive capabilities to create new offerings for our existing markets or enter new markets?*

Distinctive capabilities are those that have been invested in and refined, so that they provide an extraordinary competence that other companies cannot master. This sets them apart from "table stakes": capabilities that are required to do business, such as facilities management and tax management, but which do not necessarily distinguish the business. One example of a company that built its expansion around distinctive capabilities was an explosives manufacturer with a hard-to-replicate proficiency in carrying dangerous products long distances to remote mining sites. The firm extended its business operations to carrying hazardous waste for a much larger set of customers.

Similarly, a rail construction firm that had developed a unique capability in overhead wiring redefined its market several times by competing in the electricity transmission and distribution market. A building company with a well-honed project management capability, enabling it to complete jobs on time and on budget, extended that capability into a business managing sporting events. The company's leaders saw that managing Formula 1 auto races requires extensive track preparation, installation of safety fencing, and construction of temporary stands within tight time frames. All these needs are similar to those of construction project management.

Looking through the capability lens, one can often conceive of chains of successful products that open new markets and win new customers. One of Apple Inc.'s key capabilities is its ability to achieve seamless integration of diverse functionalities in its digital devices. This skill led to the iPod, the iPhone, and most recently the iPad — a chain of products that has driven Apple's growth to new heights and taken the company far beyond its roots in desktop computing.

5. Business Models

The business model lens focuses on how modifications or format shifts in a company's business model can fundamentally alter the established customer value proposition in a company's favor. This can enable your company to increase its margins, offer products at a lower price point than your competitors, or gain market share. The core question associated with this lens is, *How could we change the way we serve our customers to increase both our profitability and customer value?*

Companies usually shift their business models only when sustained periods of poor industry returns force them to rethink the way they do business. For example, when Fuji Xerox Company was facing closure in Australia because the cost of importing parts from Japan made it uncompetitive, it changed its business model. Instead of importing parts, it began remanufacturing components recovered from its installed base of copiers. Not only did this enable the business to return to profitability, but the new model was also adopted internationally by Xerox and won global environmental awards.

The business model lens should not be reserved for crises, however. A significant source of its power is in business model innovations that surprise competitors and customers and rewrite the rules of competition for whole industries. When Dell Inc. perfected a direct-to-customer distribution model that blindsided the computer industry's major players, it got a huge boost to its competitive position and its profitability. Southwest Airlines Company's short-haul, point-to-point model allowed it to successfully compete at a lower price range than traditional hub-and-spoke carriers with high fixed costs.

Making a Better Choice

Every lens has its own value, and companies should use each one exhaustively before moving on to the next one. Often different lenses generate similar ideas. That's OK. The point is to let the methodology be a "looking glass experience," which alters perceptions, expands horizons, and redefines market boundaries.

Companies that use the five growth lenses typically generate long lists of potential growth opportunities. You may have more than 100 ideas by the time you're done. But lists alone are of little value. You need to be able to quickly evaluate the ideas you have generated and set priorities before selecting the very best ideas for implementation. This winnowing process can involve any or all of three concurrent techniques: the use of an iterative filtering framework, facilitated workshops, and a fact-based assessment of your ideas.

• **An iterative filtering framework,** in a series of efficient steps, eliminates the least attractive opportunities so you can pay more attention to the most promising ones. First, evaluate the full list with a group of "pass/fail" criteria, ideally defined in advance: a minimum threshold for revenue, a maximum length of time to profitability, acceptable margins, and a sufficient level of incumbent domination in the sector. Typically, more than two-thirds of your opportunities will fall off the list.

Then evaluate the remaining ideas in greater detail, with a team of senior executives who have a strategic view. Your ideas must pass muster in terms of market attractiveness and the company's competitive capabilities. Selection criteria should generally include the amount of investment required, the market growth rate, competitive advantage, and your ability to enter the market. Expert facilitation can minimize the politics and power plays that are common when executives become enamored of certain projects. Facilitators ensure all credible ideas are heard and keep the process on track.

By the third filtering stage, you may have fewer than 20 opportunities to look at. Prepare a mini business case for each idea, incorporating details of the market, target customer segments, products, value proposition, competitors, distribution, economics, and risks. Using these cases, your senior executive team should evaluate the ideas and choose the top five.

In the final stage of filtering, create detailed business cases for the remaining opportunities, including high-level implementation plans, growth pathways, risk-mitigating actions, financial expectations, and business partners. The executive team can then pick the opportunities and allocate investment funds.

• **Facilitated workshops** are often used for brainstorming new ideas, but they can also be used to explore these ideas in more detail with a broader group — a cross-section of people from several divisions and most staff levels. Use these workshops to expand and think through those ideas that are good but underdeveloped. The sessions can also set a strong foundation for implementation, because they generate cross-boundary ownership.

When a leading Australian construction company used the growth lens methodology, it held a series of ideation workshops attended by more than 40 staff members from different levels and departments throughout the company. (It also interviewed a number of key clients and mapped the best growth strategies among a global set of construction companies.) More than 100 growth opportunities were identified in three facilitated workshops, each conducted in a half day. The most attractive opportunity, which surfaced using the capabilities lens, was an untapped $700 million high-margin market related to climate change that is now being pursued by the company.

• **A fact-based assessment,** with appropriate information and skillful analysis incorporated into the process, can be vital to the credibility of your opportunity development process. You can accomplish this in several ways. Draw on a global network of experts to identify best practices and analogous situations. Conduct a global market scan, looking at best practices used by companies that are in the same industry and facing similar growth challenges. Or involve industry- and sector-specific experts who can provide the facts needed to evaluate an opportunity that lies outside your current businesses.

Experts may also be needed to provide information on the latest developments in new technologies, customer needs and trends, the regulatory arena, and business models. Skills are needed to rapidly and objectively build and examine business cases using unambiguous quantitative evidence. Here, capabilities and experience in corporate strategy, due diligence, business development, research, and financial modeling are required.

New Horizons for New Growth

Identifying the next billion-dollar market opportunity today to create a powerful engine of future growth may require you to tap into all your organization's creativity. Many of your staff may agree at first with economist and Nobel Prize winner Thomas Schelling, who said, "One thing a person cannot do, no matter how rigorous his analysis or heroic his imagination, is to draw up a list of things that would never occur to him." But as illogical as it may sound, this is exactly what companies must strive to do if they are to succeed in low- and no-growth economies. You can't do it simply by sitting down and thinking through the problem; you'll need a process to guide you to the kinds of ideas that are inconceivable at first, but necessary for your business's long-term growth. +

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