Bywater
Creating competitive advantage
Strategic Approaches to Business Challenges

TRANSFORMATION NEWS

Issue 4

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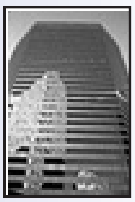


THE BYWATER DIFFERENCE

How do we help our clients quickly achieve business results and a leadership position in their industries . . .

1. Our results-driven approach to major business challenges
2. Our client-led approach, which allows self-direction and ownership of change initiatives
3. Our team of consultants, who are the most senior seasoned and experience professionals
4. And, our integrity and honesty as a service provider

STRATEGIES THAT WORK

Achieving Dramatic Growth - From Cost to Revenue

An overview of the latest in Bywater's Executive Briefing Series

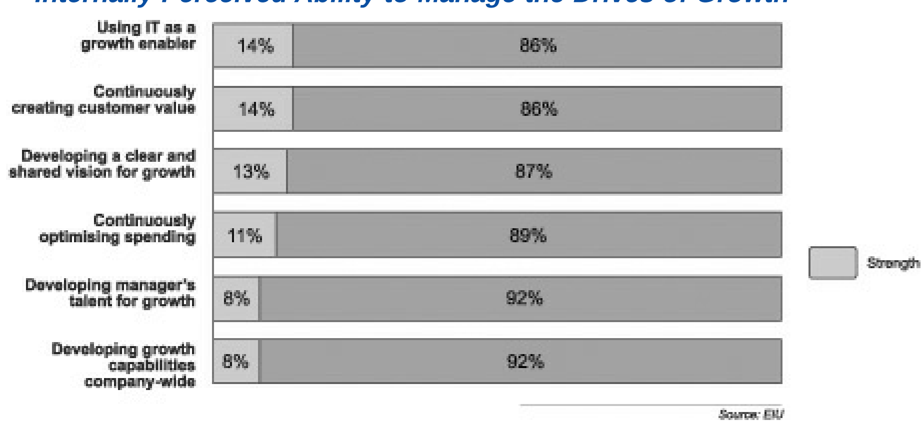
The economic theory upon which the business world rests states that dramatic growth, which ensures that a positive return on capital is maintained, is the most important goal of the 21st century corporation. For companies pursuing growth, this means:

- ☑ Developing a business model in which the return on equity exceeds the cost of equity
- ☑ Placing growth as the first priority
- ☑ Managing both simultaneously

How is dramatic defined? Many new entrepreneurial businesses consistently deliver 30%-70% growth year-on-year, much more dramatic than the typical growth rate at Fortune or NYSE companies where achieving growth in double digits is seen as miraculous.

Growth is a challenge. A study that questioned over 300 senior business leaders showed that only 10% of companies have the necessary understanding and capability to actually manage the drivers of growth listed below:

Internally Perceived Ability to Manage the Drives of Growth



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The Growth Myths

For many companies, failure to achieve dramatic growth can be traced to *three faulty strategies*:

1) *Focus on market share:* When all or most of the companies within an industry plan to dramatically increase market share massive over capacity ensues, prices erode, and profits decline.

2) *Sell, sell, sell*: Stock markets often drive short-term behaviors, such as new sales campaigns, innovative marketing promotions and head hunting for big hitters. The result? Some increase in incremental revenue, but no sustainable strategic shift that promotes growth.

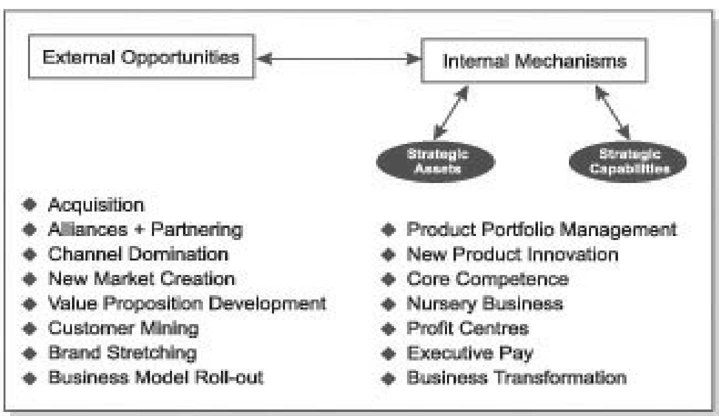
3) *Growth is satisfied customers:* This is an important goal, but not one that can guarantee sustained growth. Studies show that in markets where choice and competition is rife, being even just a fraction under the 100% satisfaction line is enough to send customer loyalty plummeting.

The Real Growth Drivers: What Are They?

Not what, but how, the core of a dramatic growth strategy involves: identifying and capitalizing on **external opportunities** by transforming and restructuring **internal mechanisms**.

On the new playing field, the traditional organic versus acquisitive split has little relevance, as evidenced by many e-creations formed by many parties taking a 5%-15% stake.

Dimensions of the Growth Strategy



There are many important levers of growth. Which does the organization pull first?

Growth Along Product, Customer or Geographic Axis

Companies wishing to grow can plot strategy along any of three vectors:

1. Increase the number of product and services
2. Increase the number of customers or the value of sales to existing customers
3. Increase the number of geographic markets

The Four Major Areas Where External Opportunities Lie

1. Mergers & Acquisitions
2. Alliancing
3. Customer-Centric Focus
4. Business Model Roll-Out

1. Mergers & Acquisitions: Avoiding Failure. We've all heard the numbers around the failure rate of M & A's. A recent study claimed that 85% of mergers result in lower shareholder value. But why? One reason: no clear answer to the question "Why are we buying this company and what is the clear value derived?"

· Synergistic value, including acquisition of a direct competition, or a short-term investment acquisition. These M & A's are usually all about end-to-end supply chain integration and reduce costs as a result.

· Sweat value acquisitions typically involve little or no cultural integrations, because this is not an aspect of this type of acquisition.

The other dimension on the axis to consider is the **value equation**-the ability to drive dramatic growth from the combined capability of the new organization. This is what markets value most highly.

Once you know why you are buying, what do you pay? This is a question that buyers get wrong up to 85% of the time. A look at 40 notable acquisitions of the 1990's reveals a surprising conclusion: Those who pay the highest over market price tend to get the greatest returns. Why? It is when the acquisition is driven from growth objectives that the market sees the value. Whereas the traditional synergistic (cost) benefits of acquisition simply do not conform to the economic rule that it is profitable growth that drives shareholder value creation.

2. Alliancing, Partners and Good Friends: Like M & A's, alliancing has moved from being about cost reduction to enabling growth and with speed - speed in product or geographic expansion, or in acquiring capabilities. But it is important to remember where along the continuum you are playing, ensuring that your choice meets your personal control/risk balance.

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3. Go Customer-Centric: The Porterian Value Chain is the basis of how many businesses view themselves: "We have certain assets and capabilities, we currently make certain products and services and we have certain customers. What's the best way to take products and services to market to meet customer needs?"

A customer-driven value chain, on the other hand, asserts that the approach start at the other end-that a clear focus on and understanding of customer needs drive the products and services you create, the capabilities you build and your delivery mechanisms.

Going customer-centric involves a fundamental rethink of the entire business design. It starts with agreement as to the target customer group and a clear definition of the value, which the organization intends to capture.

Table 1 - The Dimensions of Business Design

Dimension	Key Issue	Key Questions
1. Customer Selection	Which customers do I want to serve?	To which customers can I add real value? Which customers will allow me to achieve my profit goals? Which customers do I *not* want to serve?
2. Value Capture	How do I make a profit?	How do I capture, as profit, a portion of the value I created for customers? What is my profit model?
3. Differentiation/ Strategic Control	How do I protect my profit stream?	Why do my chosen customers buy from me? What makes my value proposition unique/ differentiated vs. other competitors? What strategic control points can counterbalance customer or competitor power?
4. Scope	What activities do I perform?	What products, services and solutions do I want to sell? Which activities or functions do I want to perform in-house? Which ones do I want to subcontract, outsource, or work with a business partner to provide?

Adapted from Slywotzky and Morrison

4. Business Model Roll-Out: The safest way to achieve dramatic growth without destroying your economic model is to make your economic model the basis of your growth. This involves exploiting a transportable formula as many retailers, such as McDonalds, Target and Starbucks have done. But the concept can apply more broadly.

Before looking at what internal mechanisms need to be restructured or transformed to meet external opportunities, there are two strategic aspects where the internal can drive the external:

- Strategic Capability -An ability to do
- Strategic Assets -Something You Have

Following deregulation of US telecommunications, Cincinnati Bell recognized its 200 strong IT department had specific and marketable capabilities, enabling them to turn a cost center into a profit center. Now CBIS is a separate entity with 11,000 staff and shows how a strategic competence can fuel growth.

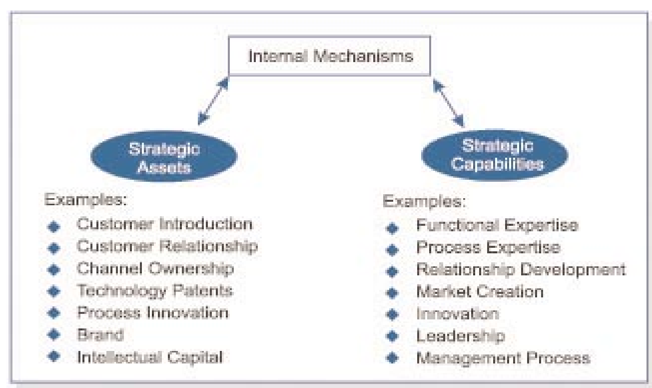
Brand is another great strategic asset. Look at Virgin, Coca-Cola and Starbucks (again), where a lifestyle concept is developed around the name rather than the product. The opportunity to stretch the asset into many products and services is enormous.

Strategic Capabilities & Assets

Here's how focus on just two **internal mechanisms** can lead to dramatic results-new product innovation and nurseries.

Product Innovation

An annual survey of leading technological firms from the Industrial Research Institute (IRI) found that "making innovation happen" has crept up the list of priorities to



become industries' number one challenge. But how many new product ideas does it take to find one profitable product? The answer is as many as 3000, according to experts. These are typically winnowed down to four major development programs, of which one will emerge the winner. Take Texas Instrument's "Speak 'n' Spell" children's toys.

Estimated to cost $20 million, the product line has nevertheless added $500 of bottom line profit. But new product success requires that product portfolio management and new product development and introduction processes be transformed to support revenue strategy. And it's not just the process that needs to be transformed. It is the culture and mind-set as well. Thus, the need for nurseries.

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A Nursery for New Children

Large organizations tend to be risk-averse, limit share ownership to only the very high echelons, operate under carefully documented rules and policies, and have a cadre of managers whose personal political aims are often first priorities on the agenda. In their early years, however, giants like Apple, Virgin or Microsoft were probably on the other end of the scale for each of the dimensions described.

More and more companies are finding that to create new, fast growing, innovative businesses they must cut free from the culture and rules that govern existing operations, and create new entrepreneurial subsidiaries where there exist broader share options and a promise of an IPO, a new dress code, casual working hours and a meritocracy where talented individuals are encouraged to be individual.

If the world's biggest organization are to survive and grow, it is difficult to imagine them doing so without a clearly articulated strategy for developing nursery businesses through the creation of an environment where they can flourish and grow.

What Now?

Is the fundamental purpose of your organization to grow? If so then what is your strategy for dramatic growth? Are you among the 90% of companies who see internal obstacles as the first and foremost barrier to getting started? If so, understanding these and their impact is a great place to start. Moving from your constraints to creating a platform to succeed means having a clear understanding of the necessary prerequisites for dramatic growth. Once in place, it allows the primary dimensions of the strategy and its implementation to be devised. ◻

The Executive Agenda Check List

(check)

Critical Constraints

- ◻ Do your leaders drive growth-focused initiatives?
- ◻ What percentage of total improvement initiative investments is spent on growth, rather than efficiency projects?
- ◻ Do middle managers recognize growth ideas as taking equal importance to cost savings?
- ◻ Are market share, sales, marketing mix and service your key levers in achieving revenue targets?

Necessary Prerequisites

- ◻ Can you clearly articulate the economic model for the growth business?
- ◻ Do you have an economic model for the business that links your business plan to your share price?
- ◻ Have the channel to market issues been understood, and a strategy established?

Strategic Options

- ◻ Can you create a new market that currently does not exist?
- ◻ Do you have a brand that can be applied to products or customers outside your current scope of operation?
- ◻ Is there clarity about your strategic assets and capabilities, and an understanding of how to leverage them?
- ◻ Could rethinking your customer value proposition open up new areas of revenue potential?

To receive the full length Executive Briefing, Achieving Dramatic Growth: From Cost to Revenue, please call (800) 973-0344, or email info@bywater-consulting.com.

For support in developing and implementing your growth strategy, please call Bywater at (800) 973-0344.

As we move into a new era, growth and market dominance are coming much more to the fore. Companies that will succeed are those capable of achieving growth.

Bywater has helped its clients to lead and support the design and implementation of strategic business initiatives, including important growth and cost-reduction programs.

The following three case studies will give you an idea of the challenges other companies are facing, the strategies implemented, and the substantial benefits received.

Performance Improvement within the Air Industry

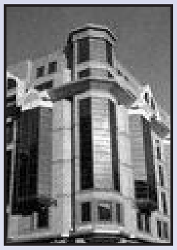
This state owned airline group was facing intense competition from much larger European rivals and losing market share due to poor customer service.

Bywater was contracted to help the organization achieve growth. The plan involved clearly defining the airline's customer needs and developing a strategy to deliver those needs.

A major part of the program was to create a business process based company and to ensure that the airline's staff was equipped with the skills necessary to ensure that the processes delivered customer value at all times.

As a result of our work, the airline became the most punctual in Europe and was voted "Airline of the Year". Additionally, changes to the company's culture and significant improvements in processes delivered substantial bottom-line benefits.

Business Transformation program within Distribution

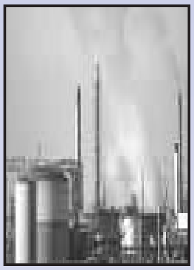


This Fortune 100 distribution company identified the need to improve performance through the creation of a new organization.

Bywater has worked with this client to define and implement a new organization structure capable of delivering improved performance through re-engineered business processes, which link to the company's strategic objectives.

As a result of our work this client has seen a multi-million dollar improvement in profit performance.

Implementing a Growth Strategy for a Leading Oil Producer



When a major oil producer with over 4,500 staff faced demand to dramatically increase oil production from existing facilities, it recognized the need for a significant step-change program to make this happen.

Working with Bywater the company outlined a 2-5 year plan whose key objectives included:

- ☑ Identify and analyze constraining factors
- ☑ Identify value-adding and non-value adding processes
- ☑ Create an organization structure around re-engineered value-adding processes
- ☑ Reduce total cost by 15%

As a result of the initiative, the oil producer was able to meet production targets as well as eliminate cost through reduced oil deferment and organizational improvement, which generated over $5.5M per year in one field alone.

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Creating Competitive Advantage
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BE BRIEFED

Bywater's Executive Briefings and Summaries are designed to explore and share insights about the pressing concerns of today's business leaders.

Each briefing and summary looks at a specific challenge, defines the problems encountered when trying to meet the challenge and provides discussion and practical applications to succeed.

Visit our website for immediate access to a list of briefings and summaries designed to help individuals and organizations succeed as leaders in their industry.

www.bywater-consulting.com

ON THE HORIZON

ASQ North East Quality Conference
54th Conference
"People, Process, Performance"

Join Bywater at the NEQC Conference on October 22 & 23 at the Mystic Marriot in Groton, Connecticut.

Bywater Consultant, Lesley Steer, will be speaking on *"Process Mining - Effect Significant and Sustainable Cost Reductions"* on Tuesday, October 22 at 2:45 pm.

Come and find out how you can significantly reduce unnecessary and hidden expenses in your business processes.

For more information on the conference visit www.neqc.org or call (877) 767-8796.