Self-examination: Thinking about your company's growth drivers

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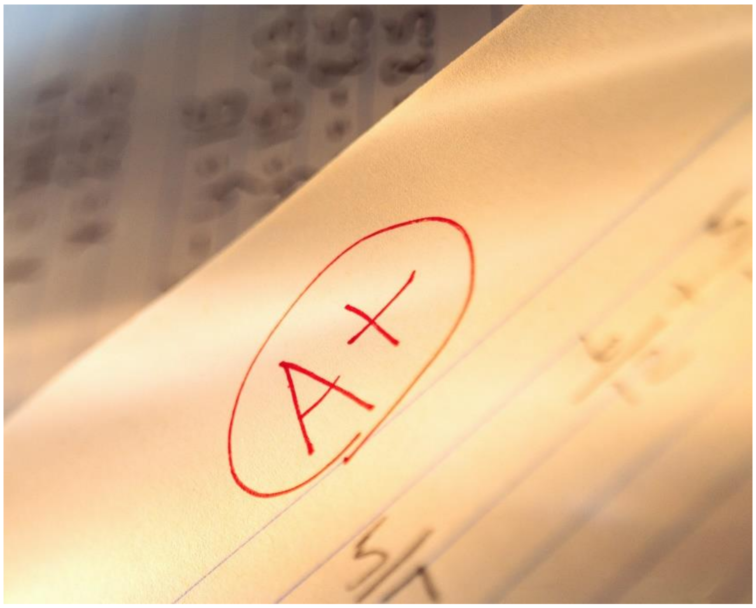

Most companies embarking on a course of expansion immediately think of bolstering sales and marketing efforts; of capturing new customers and markets, of enhancing existing products, of improving production efficiency, of eliminating or acquiring in-market competitors, of increasing production capacity.

This straight-ahead approach is very appealing. "If we have been successful doing the things we do, let's do more of them and become more successful." Unfortunately, most CEO's don't really know what their company does; why their company has been successful. In most cases the turmoil of a complex environment and the self-ignorance of management lead to a great amount of serendipity in any company achieving successful growth.

An organized program of self-examination and self-discovery should be the first step in any growth strategy planning effort. Most CEO's readily agree that successful growth requires understanding of the company's intended markets; the outside the company components of growth. However, sustainable growth strategies also require that the company managers understand the inner characteristics of their company. Specifically, what are the internal drivers that have helped us to grow thus far? How have we engaged and combined those drivers to produce a defined and comprehensible growth path; a growth vector?

What is a growth vector? You can call it a business model, a business plan, the theory of the company (*a la* Peter Drucker), excelsior, or any other name; but it sets forth a general path which the company must understand and follow to grow sustainably. It identifies and engages the strengths, the business drivers, inherent in the organization as well as identifying and addressing those company characteristics which inhibit growth or even lead to decline.

Unfortunately there are thousands of possible business drivers and inhibitors. More, each company has a mix of drivers and inhibitors unique to it. Even more, new potential drivers and inhibitors appear all the time.

Let's take a well-known and successful company, Apple. It's a good example because its growth has been largely organic as opposed to acquisitive. In the period 1988 to 2014 Apple bought almost 60 companies, averaging 2.2 acquisitions per year. In the four years 2006-2010 Apple acquired 11 companies while similar tech companies went on a buying spree: Microsoft bought 45 companies, Google 40, and Cisco 30.

Apple certainly qualifies as a growth company. Since its inception in 1977 Apple's annual revenues have grown from $700,000 to a projected $38.31 billion in 2014 an average year over year increase of 73%. At its IPO in 1980 Apple stock debuted at $22.00 per share. On July 23, 2014 it closed at $97.19 after four 2 for 1 stock splits since 1987. Starting with three part time entrepreneurs, Apple now claims to have 80,000 employees world-wide and to have more than quadrupled US employees since 2002. Apple currently is the world's most valuable company with a market cap of $462 billion.

So what have been Apple's primary business growth drivers?

Leadership – Much has been written and said about the contribution to Apple growth made by Steve Jobs leadership. Jobs was widely regarded as arrogant, blunt, dismissive, judgmental, micro-managerial, unreasonable, intolerant, petulant and impatient. He also was regarded as charismatic, brilliant, visionary, and credible. The mantras he preached were focus in execution and simplicity in user experience. He was a perfectionist who worked in what has been called the "reality distortion field". He didn't let facts stand in the way of achieving simplicity and perfection in products. In great part, because of and during his leadership, Apple introduced disruptive products starting with the original Apple through the iPhone and iPad, the Apple Store, iTunes and iPod, iOS, and so on. After Jobs left the company from 1985 and through his return in 1996 Apple product introductions tended to be improvements on already existing models rather than completely new and ground-breaking. During Jobs absence Apple's sales stagnated and operating income was negative. Following Jobs return to Apple in 1997 through 2011 the Company experienced an annualized increase in stock price of 37.7% and annualized revenue growth of 18.6%.

Innovation – It's widely accepted that Apple is an innovative company. Last year Boston Consulting Group ranked Apple number one in their list of most innovative companies. By innovation we mean the use of an existing invention to produce a new result as opposed to invention which is the creation of an entirely new idea. Apple is not an inventive company. Most of their key technologies and concepts have been originated by others: windows, icons, and the GUI by Xerox; Gorilla glass by Corning; Diamond Multimedia's Rio (iPod); RIM's Blackberry and IBM Simon Personal Communicator (smart phones); touch screen by E.A. Johnson of the Royal Radar Establishment, and so on. Apple's R&D budget in 2013 was only 2.2% of revenue compared to 5.9% for IBM, 11.9% for Cisco, 12.2% for Oracle, 13.3% for IBM, and 13.6% for Google. As of 2012 Apple ranked 13th among tech companies in number of patents held. Most of Apple's innovative efforts are focused on products as opposed to other internals such as process and culture or externals such as markets or customer service.

Community value – Over the years since its founding Apple has been able to establish a community of dedicated and loyal customers and enthusiastic employees; much more so that most companies. In a recent survey of smart phone users by WDS, a Xerox company, surveyors found that 76% of Apple customers replace their iPhone with another iPhone.

Apple has created substantial community value by creating what other commentators have called “the Apple ecosystem”; a system of compatible and capable hardware and software products that allows users to exchange “social tokens” with relative ease: music, instant messages, advertising, mobile payments and commerce, cloud storage, voice, pictures, face time, location data, apps and so forth.

Finally, Apple invited its customers to participate in creating new and enhanced value through its “participatory design process”. According to Christine Moorman in Forbes: “Apple integrates customer experience into its design and development process to understand their “pain points” and “opportunities”.”, thus going directly to the source of its user community’s individuals wants and needs resulting in a community of rabidly loyal users.

These three corporate forces: innovation, leadership, and community, were the main growth drivers for Apple in the period before the death of Steve Jobs. When one or more of these forces disappeared, as with the absence of Jobs from the company during the period 1985-1996, so did company growth.

Naturally there were other drivers that contributed: aggressiveness both against competition and within especially a willingness to move to new technologies and products even at the expense of old; product development and industrial design expertise; collaboration among employees and management and with external partners. There were also some factors that sometimes produced negative outcomes such as Apple’s management of strategic partnerships which tended to be abrasive and sometimes produced competitors.

As in most cases, these drivers emerged serendipitously mostly driven by the personality and charisma of Apple’s leader Steve Jobs. Not all CEOs are Jobs-like in this regard; having a personal character that reinforces the use of these critical drivers. However, each CEO can examine his company and its environment to identify and engage such drivers through a formal process of corporate examination. This exercise is critical to establishing long-term sustainable growth for a company. If a company embarks on a growth vector contrary to these internal factors the drivers will tend to diffuse or even suppress the effectiveness of any growth program based on other factors.

Identification of your company’s particular growth drivers is not an easy process. In most cases, such drivers are intangibles that exist within such soft and fuzzy constructions as company culture, leadership qualities, executive personalities, the pressures of market wants and needs, the complex and dynamic relationships of the company to its competitors and to its environment, and so on. There may be hundreds of possible drivers in the abstract, and tens of drivers specific to your company. However, with a large amount of introspective effort, you can identify a handful that are truly decisive and that handful likely is a mix that is unique to your company.

By aligning and engaging these powerful intrinsic forces company managers can create an effective and sustainable growth vector, a path that points the way for strategic and tactical action.