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The Bold Choice to Grow

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It is necessary to grow steadily at more than 7.5% per year to create value in the long term. Growth is a choice at five levels: choice of ambition, choice of playing fields, choice of business models & their level of investment, choice of speed & scale, choice of culture & organization. These choices require boldness and risk-taking that must be evaluated and monitored.

The Value of Long term Growth

Growth is the only way to create value in the long term. A company that does not grow steadily and does not increase its value regularly loses its attractiveness and independence in the long term.

Financial analyses demonstrate the strong correlation between growth (at a given profitability) and shareholder return (TSR): one point of long-term growth generally generates more than one point of TSR.

For a shareholder, this means that, over 10 years, his investment will have returned 2.5x his stake for a 10% TSR, whereas it will have returned 4.0x his stake for a 15% TSR. The 5 points of growth difference will have allowed him to double his gain. The stakes are significant.

Beyond the financial implications, growth allows the company to invest and remain distinctive in products, image, channels and customer access modes. It allows it to recruit and retain talent and to develop teams and skills. It maintains the cohesion of shareholders.

The 5 choices to grow

Growth is above all the choice of boldness. The bold choice to grow. It is not possible to grow without deciding to grow and take risks, and this, in an iterative way, at 5 levels:

1. The Choice of Ambition to grow

A growth ambition of 3% to 4% per year is insufficient to create value. It is not higher than the average growth of the economy: it cannot remunerate the shareholder's risk.

In most cases, teams are asked to generate strategies, within the boundaries of their existing businesses, and in direct derivation or immediate adjacency to those businesses.

The larger the company, the more successful and highly valued it has been in the past, the more disappointing these approaches are.

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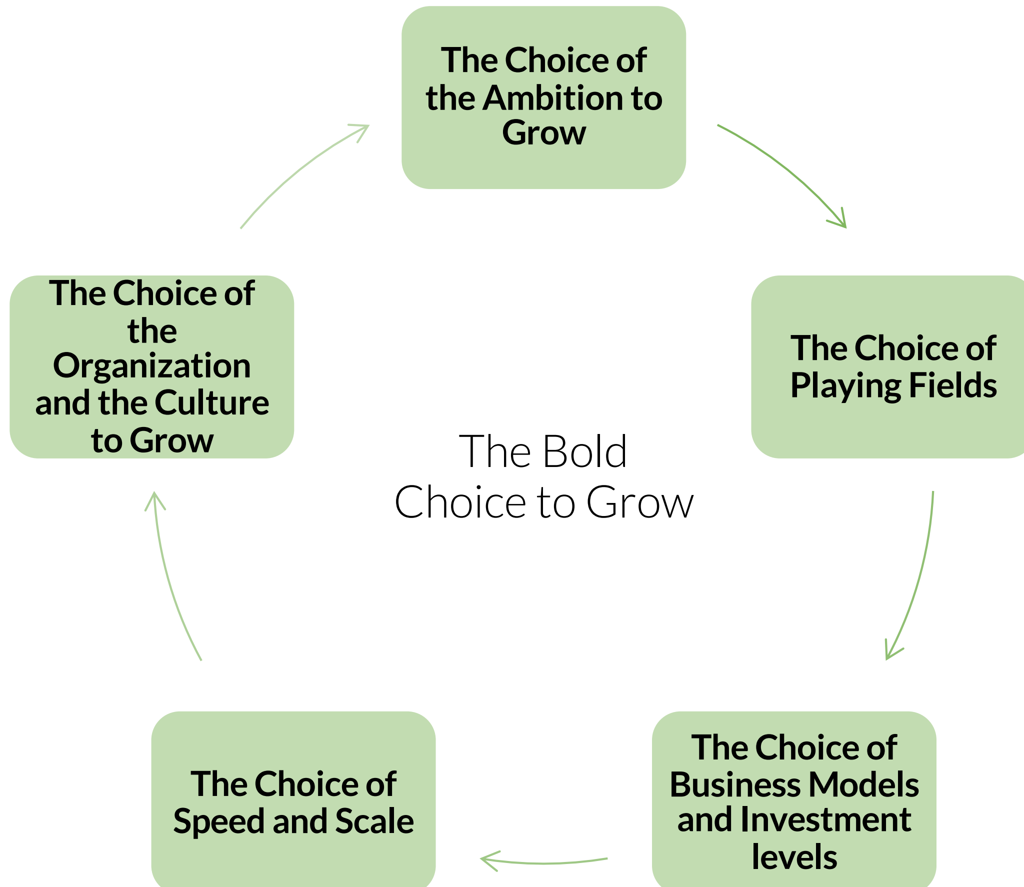
In order to grow in the long term,
it is necessary to make the choice to Grow



They necessarily only generate low incremental growth and cannot maintain high TSRs in the long term.

The right approach is the opposite. Instead, the company must first set - and at the highest level of the company - the levels of ambition that are sufficient to maintain the necessary growth and TSR beyond 5 years, in line with or beyond what has already been done.

It is then possible to deduce the (often disruptive) strategies that are necessary (organic market share gains or major structural acquisitions; extensions to the boundaries of the business or the development of new areas); assess the risks; decide; and give the financial & human resources to implement them. Strategy must therefore be based first and foremost on an explicit, well-constructed and monitored ambition.

2. The Choice of Playing Fields

Let us recall two obvious facts.

1. It is not possible to grow in low-growth businesses that are already concentrated.

2. There is no value in growing over the long term in businesses with low leadership value.

The choice of playing fields is therefore critical in growth strategies. A Group must combine a balanced portfolio of activities with those that allow for growth (growth segments) and those that allow for the financing of that growth (cash-generating segments).

The growth segments must have the following four characteristics:

- Growth potential either because they are based on high growth markets or because they are fragemented and can be grown organically or by acquisition;
- Margin improvement potential linked to this concentration: scale effects, technological synergies, commercial synergies, etc.
- Possibility of implementing a business model that allows this concentration, either organically or through a sum of acquisitions;
- Strong monitoring of this model and ability to implement it on a large scale.

The cash-generating segments must be segments with leadership value where the Group must have a strong competitive model, solid positions and an optimal investment strategy to free up room for maneuver in the growth segments.

3. The Choice of Business Models and appropriate Investment Levels

At the root of any success is a differentiating business model based on attributes valued by the customer and with economics, scale and dynamics that enable strong competitiveness and profitability.

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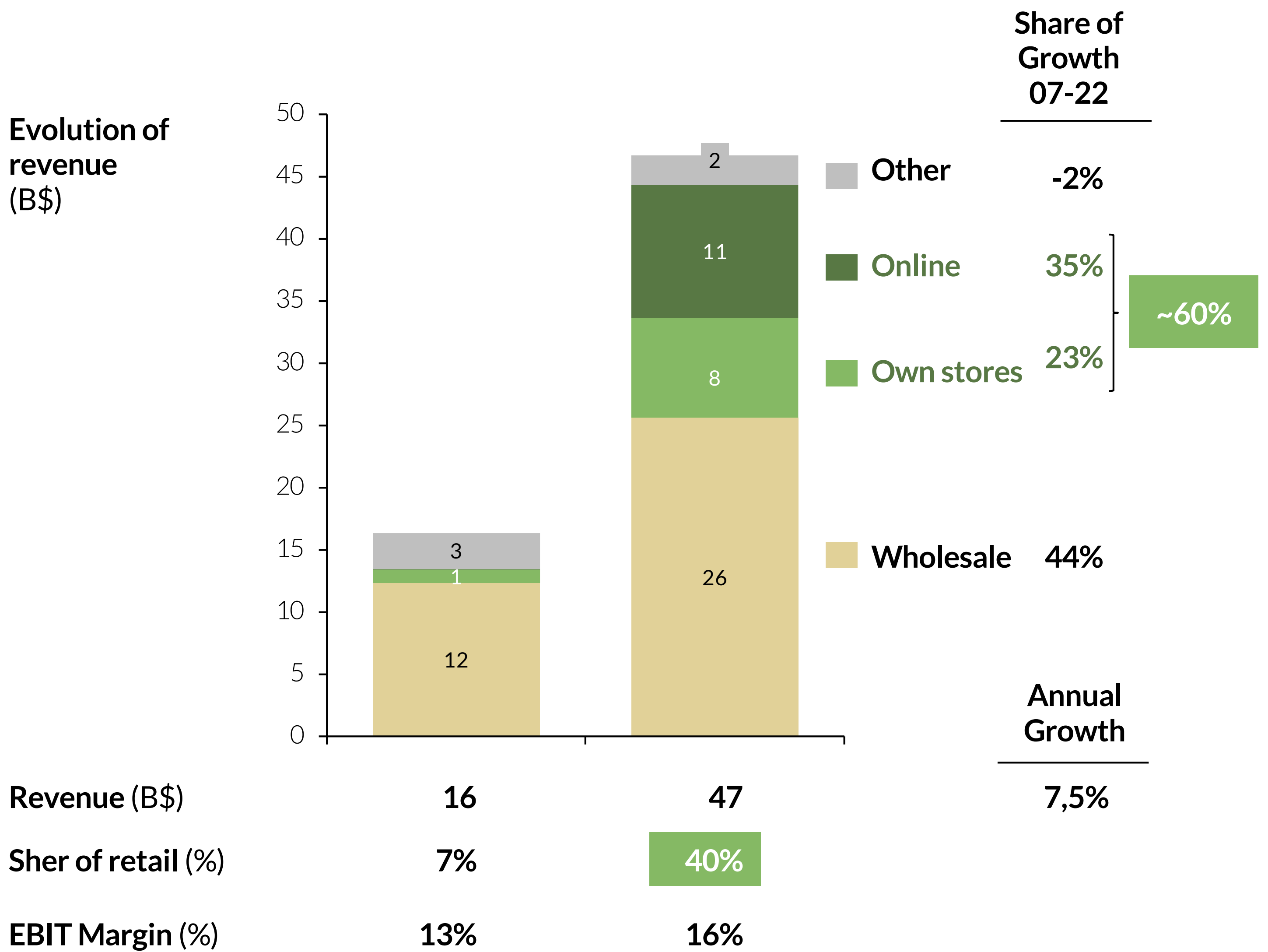
NIKE has chosen to move downstream by investing significantly in retail (physical and online)



The more relevant the model, the more likely it is to gain market share and build or strengthen leadership. The choice of business models and the level of investment are therefore critical.

Samsung's development in microprocessors has generated 40% of the group's growth over the last 15 years.

Nike's migration into retail (online and offline) has contributed nearly 60% of the company's growth in the same period.

Apple's entry into services in 2010 allows it to generate $68 billion in revenue from this activity.

However, long-term growth is only possible by implementing business models that integrate the three perspectives: strategic and financial to build strong and growing positions and to finance them; environmental to respond to the opportunities offered by this new dynamic and reduce risks; and human to build a resilient model by attracting, retaining and developing talent.

The complexity of this integration lies in the tension and short-term contradiction between the three perspectives. It requires continuous interaction between the objectives, actions and achievements of each of them to achieve a balance for long-term growth with an even more rigorous strategic approach: human and financial choices and trade-offs, priorities, implementation of a mode of operation and monitoring up to the level of general management.

It is necessary to know how to manage this complexity and overcome it in order to create barriers and sustainable competitive advantages.

4. The Choice of Speed and Scale

Every airplane pilot knows: the faster the takeoff, the more the plane vibrates.

Growth causes "vibrations". It is not a matter of reducing speed or magnitude, but of integrating and mastering these effects.

Today more than ever, the success of a strategy depends fundamentally on its speed and magnitude, more than on the definition of the direction.

At the end, the positions, competitiveness, dynamics and profitability between two strategies of different magnitude will be very different.

The choice of a strategy therefore becomes the choice of a speed. This should not be the consequence of operational implementation and the ability of the teams to go faster or slower in executing the strategy.

It must be the choice defined by the need to build positions and reach profitable positions quickly.

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Without Boldness, no growth.
Without growth, no value creation.

KEY MESSAGES

- A company must grow at more than 7.5% per year to create value in the long term, i.e. a doubling of activity every 10 years.
- Organic growth is the product of an investment that is greater than that of competitors by the impact of this investment applied to the most favorable mix of businesses, geographies, clients...
- To grow, Choices must be made at 5 levels:
  - Choice of ambition
  - Choice of playing fields
  - Choice of business models and levels of investment,
  - Choice of speed and scale
  - Choice of culture and organization.
- These choices require boldness and risk-taking.
- Without boldness, no risk-taking. Without risk-taking, no growth. Without growth, no value creation.
- This boldness and risk-taking must be articulated and monitored by top management, whose role is to create the conditions and shifts necessary for growth.

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5. The choice of culture and organization

The success of a strategy depends on its relevance, i.e. the choice of the playing field, its business model, its speed and its scope.

Of course, it also depends on the quality of its execution and the commitment of the teams.

It must be based on value principles, a culture and an organization that is consistent with this strategy. A strong decentralized entrepreneurial culture is adapted to certain situations. A culture of centralized investment decisions and project management is not. The challenge is to succeed in making these different issues coexist in the same company if it is necessary because of the different nature of the businesses.

What to conclude?

Boldness is necessary for any growth strategy. It must be present on all 5 dimensions. This boldness must be organized and structured. It is not a matter of launching into every possible avenue of growth.

It is necessary to make the approaches coherent, to focus on managing the risks inherent to growth.

Without boldness, there is no risk-taking. Without risk-taking, there is no growth. Without growth, there is no value creation.

Without structuring, guidance, focus and consistency of this strategy and its execution, there is no success.

It is the role of management to create the conditions and changes necessary for growth.

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__Strategia Partners__ is an international strategy consulting firm based in Europe (Paris & Zurich), the United States (New York & Seattle) and China (Shanghai). It assists Boards, CEOs, Executive Committees of major European and North American groups in their growth strategy. His approach integrates 3 perspectives: strategic and financial performance, environmental performance and human performance.

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