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# Combining Three Growth Models for Long-Term Growth

*By*

**Jean Berg**

Founding partner, Strategia Partners

Growth is the only way to create value in the long term. A company that does not grow by more than 7.5% per year (i.e., a doubling of revenue every 10 years) loses its attractiveness and independence in the long term.

There are three models for achieving growth: organic growth, growth through organic acquisitions (bolt-ons), and growth through strategic acquisitions.

None of these models is inherently better than the others; each operates according to different logics and contexts. Effectively implementing each model also requires specific approaches, management tools, and organizational structures.

## 1 – Organic growth

This is generally the growth model followed by most companies.

It is considered to be less costly, poses fewer cultural and adaptation challenges, and is generally less visible in the event of failure. It is what allowed Walmart to grow at over 10% per year for 30 years (1970-2000), L'Oréal to grow for 45 years (1980-2023), and Amazon to grow and create value at over 10% per year (since 1994) especially through the geographic expansion of the model.

However, the reality is more complex and essentially depends on the growth dynamics of the market.

In slow-growth segments (mature geographies; mature industries), gaining market share through organic growth requires :

- *Overinvestment relative to competitors.* In this case, the costs of growth are likely to outweigh the benefits. There is a risk of misallocation of resources and overinvestment. What's the point of investing significantly in pricing, advertising, concept innovation... only to absorb all the profits from those investments?
- *Develop of a differentiating business model.* Without significant overinvestment, this model allows the company to grow faster than its competitors. In this case, organic growth models are virtuous.

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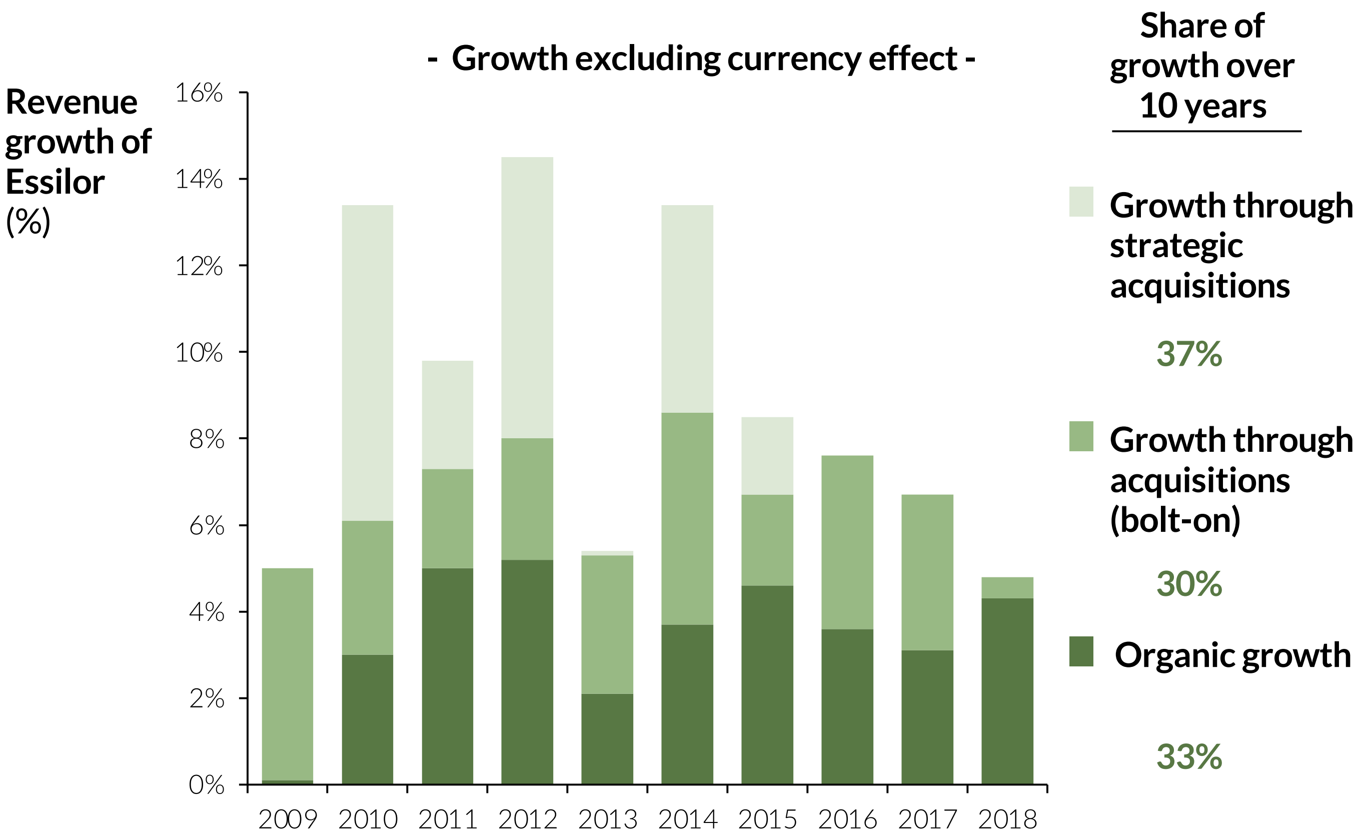
## Essilor has grown by nearly 9% p.a. over 10 years (2008-2018)
## It has combined three growth models, each contributing around a third of growth



In emerging markets, organic growth is less costly but requires a sufficiently robust growth platform. The challenge is not just to grow strongly, but to grow faster than the competition.

The conditions for success of these strategies are numerous:

- Organic growth must be prioritized to avoid diluting resources;
- Business models must be well defined and aligned so that over-investment decisions lead to the expected market share gains;
- A specific organizational structure (and differentiated management tools and performance indicators) must be defined, as growth challenges are managed differently than profitability goals and defending attractive market positions.

### 2 – Growth through organic acquisitions (‘bolt-on acquisitions)

This is generally the least developed and least structured growth model used by companies.

It consists of a large number of small, local acquisitions that strengthen the company's core business. When ‘industrialized’, this strategy allows us to make regular, low-risk contributions, using the levers of the balance sheet rather than the income statement. This is what has enabled Essilor (optics), Assa Abloy (door-opening solutions), and Ecolab (industrial hygiene) to become undisputed leaders in their industries and create value for over 30 years (see Table).

It generally complements to organic growth, and is effective in businesses with a large number of small local competitors:

- In mature segments, it is usually less costly than organic growth as it consolidates the market;
- In growing segments, it helps build a growth platform or accelerate growth to establish leadership positions.

The conditions for the success of organic growth strategies based on acquisitions are threefold:

- A specific ‘industrial’ organization to identify, attract and close a large number of acquisitions; if this strategy is not executed out on a large scale, it has no value;
- A strategy and organization to ‘integrate’ acquisitions by developing a high degree of autonomy and synergies. This involves combining the entrepreneurial spirit, market knowledge, and expertise of the acquired company with the experience, often the technology and the approach of the acquiring company;
- The ability to make recurring investments but significant unit amounts if the strategy is successful. This strategy must not only be organized, but also be integrated into a financial strategy.

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## Three growth models for long-term growth

### KEY TAKEAWAYS

- Growth is the only way to create value in the long term. A company that does not grow by more than 7.5% per year (i.e., a doubling of revenue every 10 years) loses its attractiveness and independence in the long term.
- There are three models for achieving growth: organic growth, growth through organic acquisitions (bolt-ons), and growth through strategic acquisitions.
- High-performing companies combine these three models to grow, significantly and sustainably enhance their competitiveness, and create value.
- This requires ambition, vision and a strong management commitment.
- It also presupposes an organization and operating methods that are adapted and differentiated to enable each model to succeed and complement the others effectively.

## 3 – Growth through strategic acquisitions

It's often the dream of CEOs: to acquire their nearest competitor in order to become a strong challenger or to take or consolidate a leadership position.

If successful, this strategy enables the company to :

- Change the dimension and enable the company to pursue a transformative 'strategy and 'change businesses in one step;
- Develop synergies when the acquired company operates in the same segments as the acquiring company.

This is what enabled a small Belgian brewer, Stella Artois, to become the world leader in beer (AB Inbev), growing from 5 Bn$ in revenue in 2000 to over 50 Bn$ today thanks to :

- A strategy of large-scale acquisitions and mergers commensurate with its size: in 2003, with revenue of 8 Bn$, it merged with Ambev (also 8 Bn$) to double its size; in 2008, at 20 Bn$ in revenue, it merged with Anheuser Bush (17 Bn$) to reach over 35 Bn$ in 2009; in 2015, it acquired the world's number two, SAB Miller, to reach over 50 Bn$;
- The implementation of cost synergies on central functions and production, i.e. on stages not visible to customers;
- Optimizing while maintaining, or even increasing customer and consumer-related costs, such as sales, marketing, and activation costs.

This strategy does not require any specific organization, as the size of the challenge involves the top management of the company for the acquisition phase, and the entire organization for the integration phase. It is appropriate in organizations where there is a strong value to size, and where a challenger seeks to overtake a leader, or where the leader seeks to close a significant gap with the challenger.

For this strategy to be successful, certain condititons must be met:

- An effective approach to implementing the strategy in a context where there is an inherently limited number of targets;
- Adequate financial resources. It's essential to have the financial resources to match the ambitions without depleting all resources (or modifying the shareholder structure) ;
- Achieving of strong positions in certain areas, which requires professional handling of negotiations with competition authorities, and the possible divestiturecertain assets if these positions are deemed too significant.
- A proactive organization and approach to drive the acquisition process.

## What to conclude?

There is no growth model superior to another. Each model is suited to specific situations.

It is therefore not a matter of systematically choosing one growth model among the three options, but rather combining them to benefit from the advantages of each.

In low-growth segments, consolidation through acquisition is generally the most effective and value-creating approach

In high-growth emerging segments, organic growth from a sufficiently significant platform is generally the best solution.

Growth through strategic acquisitions enables the consolidation of mature segments (the broomstick strategy) and is effective when the synergies created do not have to be fully passed on to customers.

It also enables strong positioning in fast-growing emerging segments, especially in emerging markets. In many industries, tomorrow's global leader is likely to be a Chinese leader, so it's essential to establish leadership in that country to build global leadership.

More than ever, growth means making choices not only about resource allocation but also about growth models, organization, and operating methods.

**Strategia Partners**

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***Contact : jean.berg@strategiapartners.com***

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