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Choosing Must-Win Battles to accelerate growth

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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.

Today, companies are faced with investment opportunities in both Opex and Capex to develop their business objectives, increase customer satisfaction, expand into emerging markets, undergo transformation and digitalization, and adopt sustainable practices…

While these opportunities can create the appearance of a dynamic and active company, they also pose the paradoxical risk of diluting its strength. The only way to achieve growth at the right pace and scale is to carefully choose the right priorities and pick the right battles.

The value of growth

Value creation is not only linked to profitability; but also to profitable growth. Analyses across all stock markets, regardless of the time period, show a strong correlation between growth (at a given level of profitability) and Total Shareholder Return (TSR) [1]: a one-point increase in long-term growth typically generates more than one point in TSR.

For shareholders, this means that a 10% TSR would return 2,5 times their initial investment over 10 years, while a 15% TSR would return 4,0%. The 5-point difference in growth would effectively double their profits (subtracted from the investment).

The stakes are therefore significant. The most important factor for value creation is not just the magnitude of growth but its sustainability over time.

This is what groups like Inditex (Zara), H&M, Home Depot, Decathlon, Assa Abloy, Nike, Hermès, EssilorLuxottica and Ecolab have been doing for more than 20 years.

[1] Total Shareholder Return: the total annual return received by shareholders (including share price performance, dividends, bonus shares, etc.)

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To grow over the long term, different levers need to be activated successively over time

Innovation and value proposition

1. Innovation, value and competitiveness of products, services and business models
2. Capture strong market growth (in volume and value)

Micro-segmentation

3. Market share gains through greater investment than competitors
4. Segmented capture of growth in attractive segments (in volume and value)
5. Expansion into new customer, product and service segments

Globalisation & Acquisitions

6. Competitive and rapid globalization
7. Development of new business models for emerging countries
8. Industry concentration through active acquisitions

Macro strategy

9. Expanding the scope of activities in terms of products (horizontal) or upstream or downstream value stages (vertical)
10. Macro-acquisitions and mergers to redefine the industry

Portfolio management

11. Diversification into new businesses
12. Active business portfolio management (divestitures & acquisitions) (1)

(1) To regularly renew sources of growth and exit activities that no longer offer growth potential

Long-term growth drivers

To sustain growth over the long term, it is essential to anticipate and forecast the necessary actions. It is rare for a single business model to deliver long-lasting, sustainable growth.

It is therefore necessary to successively activate different levers, adapted to the company's position and the maturity of its markets: positioning in long-term growth markets, innovation and new business models, expansion to new customers, internationalization in mature countries, global scaling of volumes and exploitation of economies of scale and experience, development in emerging markets, industry consolidation, expansion into adjacent activities (upstream or downstream), large-scale mergers, portfolio transformation, diversification…

Companies that rely on the same growth levers cannot sustain long-term growth. They may benefit from a period of growth where which their current levers are relevant, but if they do not evolve their model, they will slow down along with their underlying market. They need to evolve these levers over time and focus on three or four of them.

This is especially true for large organizations that have historically experienced strong growth and success in their business model. The challenge for top management is to identify the right levers and position them aggressively and at scale.

The conditions for growth

Getting back on track for significant, sustainable (and of course profitable) growth is not a simple continuation of past strategies.

It often requires significant rethinking and change in terms of:

- The right segmentation grid to identify the sources of growth within the group (businesses, geographies, distribution channels, customer groups, etc.), and therefore often the organizational structure;
- Focusing on a small number of ambitious targets, as opposed to diluting efforts;
- The drastic reallocation of resources between businesses, geographies... and consequently between management entities, as opposed to recycling cash flows generated entity by entity;
- The fundamental redefinition of the investment and differentiation levers required for growth (price, brand, product value, distribution channel, positioning, etc.), and therefore of the business model.

This involves a strong redefinition of priorities rather than maintaining a "business as usual".

It therefore it requires strong steering, decision-making, and control from the top of the group, as opposed to simply decentralizing operational management from entity to entity.

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Approach to defining and implementing Must-Win Battles



Focusing and defining 'Must-Win Battles'

In this context, it is necessary to define priorities at the highest level of the company: the "Must-Win Battles". Their number must be limited to less than 10, to guarantee their impact and the time management devotes to them. Governance is needed to reconcile strategic decisions, financial resources and operational implementation.

This choice is challenging but critical. It requires a strict and shared process among the company's top management:

- Defining the battles by limiting their number based on their magnitude and differentiation leverage;
- Characterizing these battles: investments, magnitude of impact, differentiation leverage compared to competitors, feasibility…;
- Prioritizing the battles based on their value creation potential, feasibility challenges, and coherence among different battles;
- Coordinating overall priorities and connections between different battles;
- Developing a macro-action plan with clearly defined responsibilities at two levels: decision-makers and implementers;
- Establishing a process to monitor the battle and make necessary adjustments to achieve the right level and scale.

This approach implies decisions and sacrifices that are only possible with ambitious and innovative management and a President with a strong vision of value creation and industry transformation.

What to conclude?

Time is accelerating. New technologies enable us to develop new models and new approaches. These new models require significant resources over short time horizons. They do not tolerate the dilution of resources. Decisions must be made more decisively and assertively to have financial impact and to rally teams around a limited number of priorities.

This is both a financial necessity and a leadership imperative. It's the choice of shareholders and senior management. If the President doesn't make the choice and doesn't play an active role, it won't happen. The organization makes a profit and is compensated to maintain and grow it, but usually within moderate limits. The President must create breakthroughs, make investment decisions, and set the stage for growth. He plays a critical role in distinguishing leaders from followers.

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No choice, no growth. No growth, no value creation.

A company must define its 'Must-win Battles'.

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.
- Growth results from investments that exceed those of competitors, leveraging this investment impact across a favorable mix of businesses, geographies, clients, etc.
- To achieve growth, choices must be made: choices of ambition, choices of playing fields, choices of business models and investments, choices of scale and speed, choices of organization, culture and operating methods.
- Faced with the abundance of opportunities and possible investments in Opex and Capex, it is essential to choose, follow, support, and amplify "Must-win Battles".
- Focusing resources and energies on a limited number of battles is necessary to accelerate growth. This requires a structured and articulated approach.

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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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