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Speed, Magnitude and Strategy

By
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Today, more than ever, the success of a strategy depends fundamentally on its speed and magnitude, not simply on its direction.

A posteriori analysis of company or project failures shows that the direction was generally right, but the speed was insufficient. This leads to the conclusion: "We had the right strategy, but we failed". This is incorrect.

A good strategy is not only the choice of the right direction, but also (and increasingly so) the choice of the right magnitude and speed. Investing 100 in an emerging growth segment in 5 years is not the same as investing 50 in 10 years. Ultimately, the positions, competitiveness, dynamics and profitability of these two situations will be very different.

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

The value to growth

The value creation for a company and its shareholders depends on its competitiveness and growth.

Competitiveness is based on strong, sustainable positions, enabling the creation of price, cost, brand and other barriers to competitors.

Growth enhances this competitive advantage, generating additional resources and boosting earnings and cash flow.

In businesses where leadership and size are valued, the speed differential explains the competitiveness differential.

Let's take two companies of size 100, with margins of 15, co-leaders in a market with annual growth of 10% and magnitude effects of around 15% (see Table 1).

Company A is growing at 30% a year. Its expansion enables it to lower prices, thereby gaining market share. After 5 years, its size will be 375 and its margin in absolute terms will be 55 (i.e. 15% of sales).

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– Table 1 –

Value to growth

Current Situation		Situation In 5 years	
	Company A & B	Company A	Company B
Revenue	100	375	160
Annual Growth		30%	10%
Costs	85	320	165
EBIT (1)	15	55	-4
In % of revenue	15%	15%	-5%
		+60	

(1) Earnings before Interest & Taxes

– Table 2 –

Relative vs. Absolute Speed

Current Situation		Situation In 5 years			
		Market growth by 2.5% p.a		Market growth by 10% p.a	
	Company A & B	Company A	Company B	Company A	Company B
Annual Growth		7,5%	2,5%	30%	10%
EBIT (1)	15	20	10	55	-5
In % of revenue	15%	15%	9%	15%	4%
		+10		+60	

(1) Earnings before Interest & Taxes

Company B grows at 10% a year (like the market). After 5 years, it will be 160. To keep up with the leader, it will also have to lower its prices. Its margin will be negative (-5).

In the end, the speed differential between the two companies will result in a situation where company A is competitive and creates value, while company B is no longer competitive and destroys value.

In both cases, the orientation will have been good, but Company B's strategy will have been bad, due to a poor appreciation of the speed of development (or poor implementation of the strategy).

Relative speed and absolute speed

This is all the more true the higher the level of market growth.

The faster a market grows, the more critical speed becomes.

Let's take the example of companies A and B (see Table 2). In a market growing at 2.5% a year, and with Company A growing at three times the rate of the market and Company B, the difference in operating income between A and B after 5 years will be 10. If the market grows at 10%, the difference will be 60.

In this context, the question is not whether speed is important, but what speed is necessary to be competitive and create value.

Two mistakes are often made:

- *Absolute speed versus relative speed*. "We are successful because we are growing at over 10% a year." If competitors are growing at 30% a year, speed will be insufficient.
- *Expected speed versus company capacity*. "Our speed is limited by our operational capacity." If your race car cannot go faster than 100 km/h, you either change cars, team up with another team, or do not race. You don not decide to go for victory with your current car. You are sure to lose.

Speed must therefore be defined in relation to market and competitor growth, taking into account the economics and competitive levers of the industry. It is from this strategic requirement that the operational plan must be defined, and not the other way around.

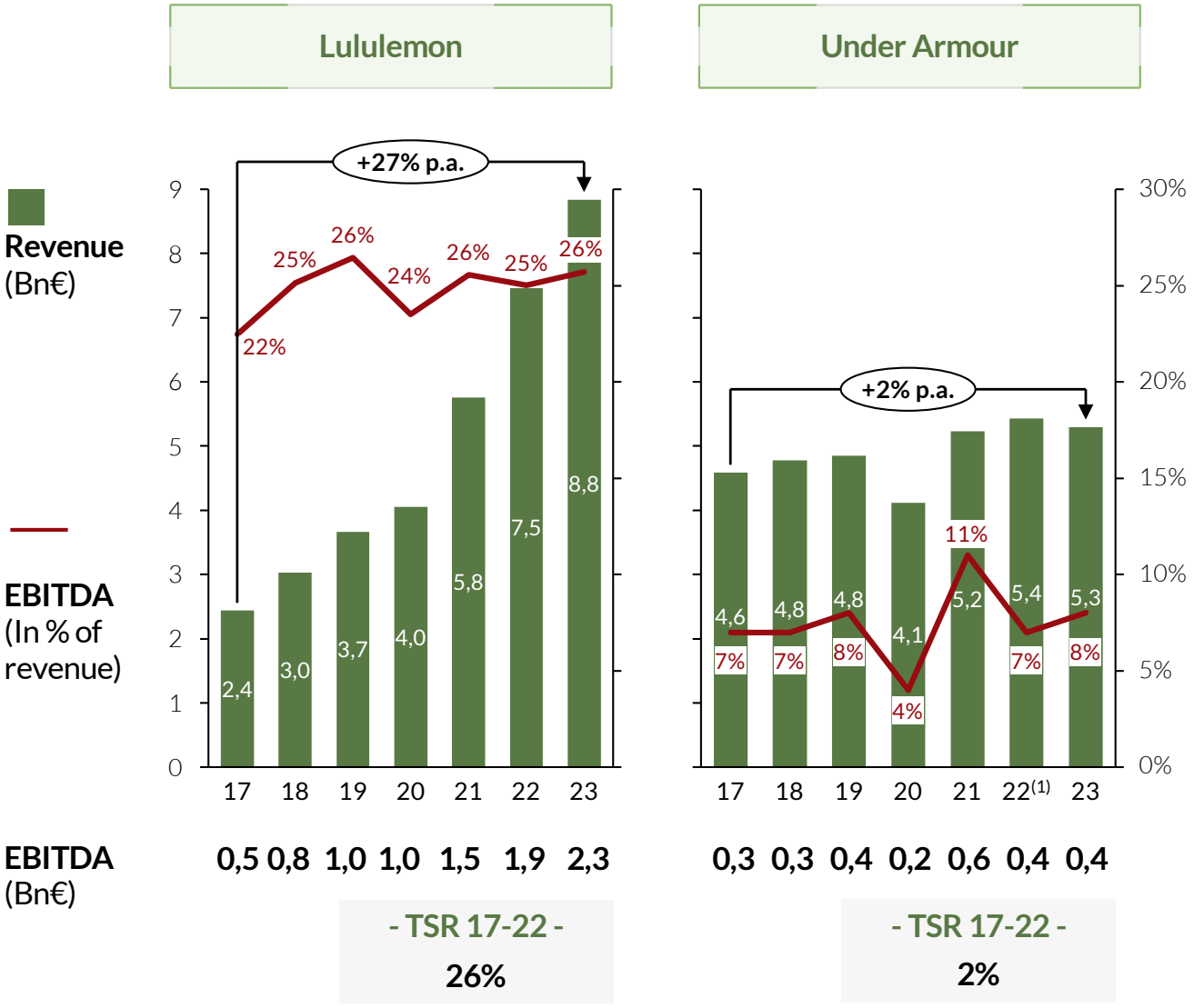
The right perspective is to first define the ambition for growth, then deduce the (often disruptive) strategies needed to achieve this ambition, and not the other way around.

If the ambition is too high in relation to perceived operational capabilities, you must either give up, or change our approach (acquisitions, partnerships, a different business model, a specific organization...).

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– Table 3 –

Unlike Under Armour, Lululemon has enjoyed strong growth thanks to its regular investments, made possible by its high profitability.



(1) Year ending in March of the following year

This is what happened in the sporting goods market with Lululemon and Under Armour (see Table 3). In 2017, Lululemon's sales were half those of Under Armour (€2.4 billion versus €4.6 billion). Over the past five years, Lululemon has grown by 25% a year, developing an attractive and differentiating model. Its sales reached 8.4 billion euros in 2023. Its margin has been maintained at 25% of sales. All gains from economies of scale have been reinvested in growth. Its TSR exceeded 25%. For Under Armour, growth was 3% a year (in line with the market). After 5 years, sales were €5.4 billion and EBITDA 7%. Its TSR was negative (-7%).

Lululemon has succeeded in leveraging the competitiveness of its industry and meeting the needs of wellness sports enthusiasts: yoga, pilates, gymnastics... He invested at the right magnitude with the right model. Under Armour, on the other hand, was content to pursue a strategy without strong differentiation, and was unable to invest sufficiently to change the game due to its low margins.

This was also observed in China's coffeehouse industry (see Table 4). Before 2017, the industry was dominated by international chains, notably Starbucks and Costa. Since 2017, the market has experienced significant growth, with the emergence of Chinese players such as Luckin. Starbucks grew half as fast as the market and Luckin became the leader. Costa went under.

In a market where the value of local market share is critical, Luckin opened new stores much faster than Starbucks. Between 2015 and 2023, Starbucks opened 2 stores a day, while Luckin opened 5. Starbucks' margin remained stable, while Luckin's grew strongly.

The strategy of Luckin is based on adapting the concept to Chinese constraints: variety of concepts; selection of directly-operated outlets as benchmarks for zones and concepts; leverage on franchisees with strong regional support to enable their development; minimization of short-term magnitude effects to favor growth; identification of medium-term optimization levers...

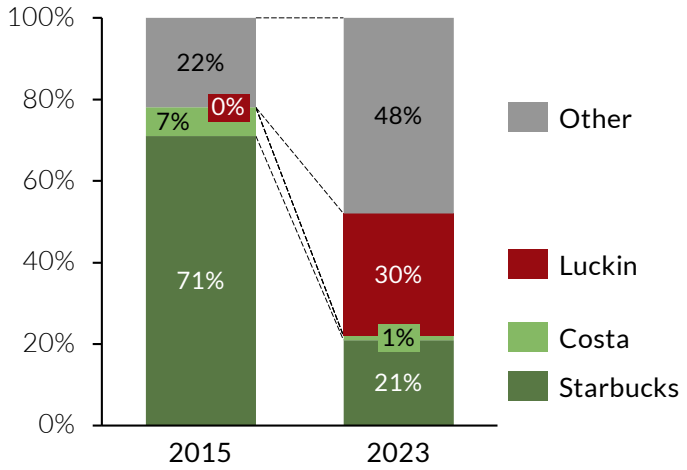
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– Table 4 –

In China, Starbucks lost its leadership to Luckin; Costa went under

China – Coffeehouse market
2015-2023

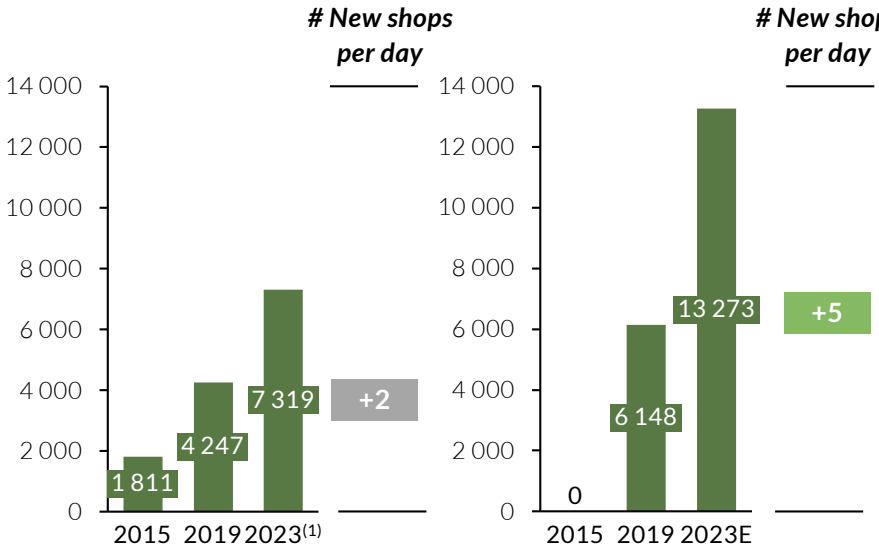
Market share (%)



Starbucks
(International chain)

Luckin
(National chain)

Number of coffee shops in China (#)



	Starbucks				Luckin			
Revenue (Bn€)	**1,6**	**2,6**	**2,8**	**8%**	**-**	**0,4**	**3,1**	**67%**
EBITDA margin (%)	**6%**	**6%**	**5%**		**-**	**-86%**	**14%**	

(1) Fiscal year ending in October

How to reach optimum speed?

The speed and magnitude of development is a choice that a company has to make, not a constraint it has to endure.

Setting the right level and successfully implementing the right speed requires five levers to be activated:

1. Focus on priorities

A company with a limited number of growth paths moves faster than one with many growth projects:

- Top management will devote more time and attention to them; they will be able to contribute more effectively;
- Teams will be obliged to succeed in each growth area, as the implications will be significant for the company;
- They will be better able to arbitrate and set priorities; they will not be tempted to spread themselves too thin;

Cross-functional approaches can be envisaged and contribute to the development of innovative models, as long as the number of projects is limited.

It is therefore critical to focus on the main projects that will bring the bulk of growth.

2. Allocate resources in line with priorities

A high-stakes growth project requires substantial investment if it is to have a significant impact.

These investments take place on three levels:

- *Human investments*. Human needs must be anticipated in terms of both quality and quantity to support growth. The profile and experience of employees must be defined for the situation in 3/5 years' time, not for the current situation. Otherwise, there is a risk of yo yo phenomena, with growth crises linked to the right or wrong match between resources and challenges;
- *Opex investments*. Beyond human resources, growth requires more significant investments than those of competitors. For example, to accelerate growth in the FMCG sector, it is necessary to invest in advertising and communications. It is therefore logical to invest more than the traditional 5% of sales at a given moment, and to anticipate the amount devoted to this investment by one year. Margins are correspondingly lower. The same logic applies to innovation costs;
- *Capex investments*. A growth priority can only be translated into reality if investments are significantly higher than its weighting in sales or net income or operating income. In a Group's business portfolio, at least 30% of high-growth activities require more than 60% of capital expenditure.

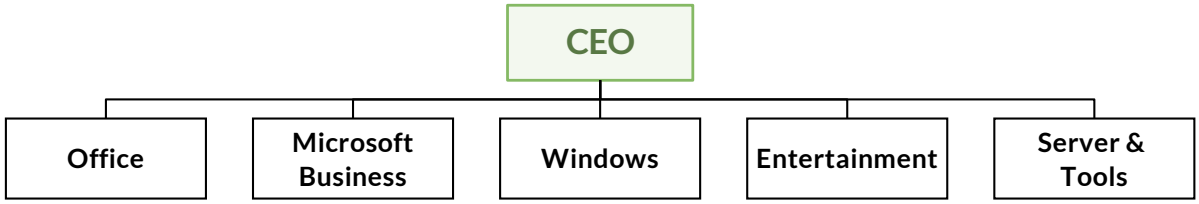
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– Table 5 –

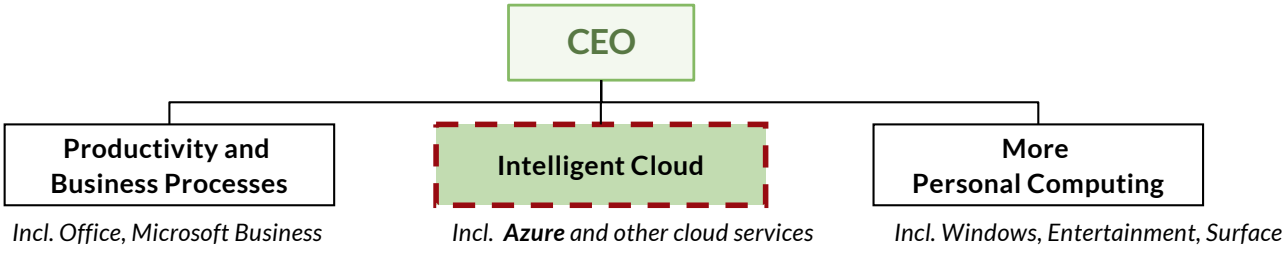
Microsoft changed its organization in 2016 to focus on growth issues

Microsoft

Organization before 2016



Organization after 2016



Incl. Office, Microsoft Business

Incl. ***Azure*** *and other cloud services*

Incl. Windows, Entertainment, Surface

Growth segments must represent at least 30% of a Group's business. It is necessary to invest twice as much in these segments. All in all, 60% of Capex and Opex must be invested in growth segments.

3. Adapt business models to growth challenges

Rapid growth means adapting business models to this ambition for growth.

Apple's strategy has always been to develop highly differentiating breakthrough innovations, deploy them worldwide rapidly and then improve them. The first-generation iPhone was initially considered by competitors to be weak in terms of telephony (reception quality) and battery (runtime). This was not the issue. The product's hallmark was to offer new functionalities beyond telephony.

In the same way, growth models in emerging countries must meet the needs of customers in these markets. In the hotel industry, for example, Western leaders offered a higher-quality concept than the Chinese (identical rooms, windows, individual air-conditioning, etc.). However, the price premium was insufficient to justify the cost difference, and deploying the concept was more complex. Chinese Home Inns could quickly invest in all types of real estate (old offices, factories, etc.) by renovating at low cost, whereas Westerners had to develop new-build projects that took longer to implement.

The trade-off between product quality and speed of launch is critical. Too early and you risk destroying the concept; too late and you run the risk of no longer creating a significant difference from the competition.

4. Monitor management priorities

Significant growth issues must be monitored by the Chairman or CEO. These are projects whose success or failure will determine the success or failure of the company's performance.

Priorities can be monitored either by direct reporting, or by a cross-functional project that is rigorously and regularly managed.

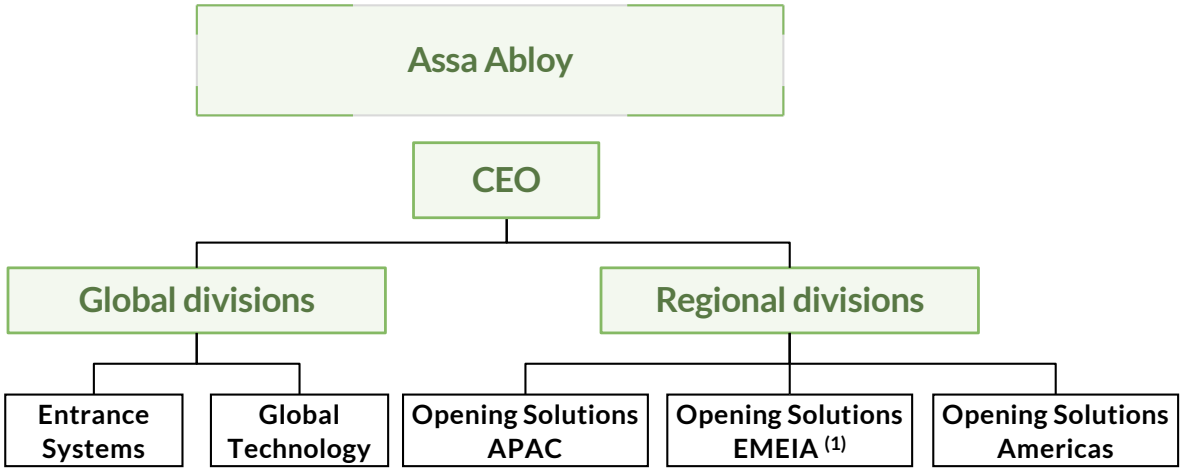
If you consider that it should not be at the level of the Chairman or CEO, then the stakes are not high enough. It is not strategic or critical for the company. The same reasoning applies at divisional level. If a growth issue is significant at divisional level, it must be followed up by the division head.

Microsoft has modified its organization to focus on growth issues (see Table 5). Before 2016, Microsoft's CEO had five direct reports (excluding support functions), structured by major products: Office, Microsoft business, Windows, Entertainment Products and Services, Servers. In 2016, to accelerate Cloud activity, the CEO decided to create a specific entity headed by the star of the company. He reduces the number of direct reports to three. Intelligent Cloud grows from €25 billion to €70 billion between 2016 and 2023.

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– Table 6 –

Assa Abloy has structured its organization according to the nature of its business and the challenges it faces.



Share of revenue (%)	33%	16%	7%	18%	26%

- **Global business**
- **Mainly Professional market**
- **Strong technological and systems content**

- **National business**
- **Mainly residential market**
- **Strong commercial content**

5. Simplify organization

Only an uncomplicated organization enables rapid growth.

Often, organizations seek to optimize too many variables at once (geography, business, range levels, business models, brands...) to be sure of making all parameters consistent. This leads to "internal" optimization negotiations that reduce speed. Experience has shown that this is time-consuming and costly: theory does not stand up to practice.

This simplification of the organization involves defining the variable (or two) that are to structure the organization. They must be defined according to the nature of the business and priorities.

- *The nature of the business*. Is there value in centralizing decisions and investments? If so, we need to design global organizations. Is there value in proximity between businesses? If so, we need to design integrated organizations with strong synergy development. In general, it's best to choose a single dimension (geography, activities, business models) and simplify the organization based on this logic. This ensures consistency and rapidity of action in relation to this dimension. If the business doesn't allow for this, we need to define two dimensions, taking care to implement an upstream process of prioritization, centralization of resources and critical decisions, and a downstream process of day-to-day decisions, close to the field, with strong reporting and process control.
- *Growth priorities*. The organization must be an engine for growth, not a brake on it. Start-ups generally grow faster than established companies in new business areas because they are focused on a single priority. This should not be the case. What are the areas where the organization should be viewed in this way (while capitalizing marginally on possible synergies for less critical functions)?

For example, Assa Abloy, the world leader in locking systems, has structured its organization according to the characteristics of its businesses and the challenges of growth. The company is organized into five business units. The first three are business units in mature markets, mainly serving residential customers, with strong geographical differentiation and a strategy of consolidation through acquisitions: EMEIA, Americas and APAC locking systems. The other two business units operate in fast-growing global markets: Global technology and Entrance systems (see Table 6).

What to conclude?

Speed and magnitude are critical elements of a strategy, and are often wrongly underestimated in favor of the direction only. They require a focus on the key issues, significant investment, and an organization and operating modes that are consistent with these issues.

Focus, simplicity and impact are the watchwords of growth. This is as true for resource allocation as it is for organizations.

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The choice of a strategy is certainly the choice of a direction, but it is also the choice of speed and magnitude

– LES POINTS CLEFS –

- 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.
- The success of a strategy depends fundamentally on its speed and magnitude.
- The choice of strategy therefore becomes the choice of speed.
- This choice should not be a consequence of operational implementation and the ability of teams to go faster or slower in executing the strategy.
- The first step is to set the ambition for growth, and then deduce the (often disruptive) strategies needed to achieve it, rather than the other way round.
- Focus, simplicity and impact are the watchwords of growth. This is as true for resource allocation as it is for organizations.
- It must be the choice of the Chairman and his Executive Committee.

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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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