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"5D" growth

Sourcing growth outside the rules

A report by Monitor Deloitte

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EVERY industry seems to have an implicit set of rules about where and how to compete, almost as if the industry were a sports league. Over time, seemingly sensible organizational design choices, competitive cultures, and intrinsic human biases combine to lead executives in the various firms in an industry to share a rather narrow set of assumptions about where and how to grow. They can come to believe that growth primarily comes from retaining their existing customers longer through better customer satisfaction while taking customers away from weaker competitors (that is, gaining share). *This places a hidden but strong brake on their ability to grow rapidly and reliably.* For, seeing the industry this way, most, if not all, act as if they were in a continuous series of win-lose games. They copy each other as rapidly as they can: Their product-line strategies become near-mirror images, and they invest in the same best internal practices. The result is that all firms' growth rates tend to rise and fall with the industry average. Even those who play the game very well find that they live in a world of two steps forward, one step back, as competitors match (perhaps not perfectly, but reasonably) any effective move on their part.

Some executives and some firms, however, refuse to be constrained to the "2D" world of share and retention. They play in a "5D" world, outside the usual rules. They create or tap into a wider set of often less-contested options that then allows them to grow faster and more reliably than those with a narrower vision. Of course, these firms protect their competitive "flanks." They, like other firms in their industry, invest substantially in programs to retain their customers and poach those of rivals. But they also see and invest in one or more of *the other three sources of organic growth*:

- Drawing new customers into their category
- Convincing their existing customers to use their product more, either intensively, extensively, or both
- Moving more quickly than rivals to serve the future, that is, to serve emergent fast-growth geographies, segments, and product areas

These are sources of organic growth that some firms more or less create, or appropriate, for themselves. They are not free or riskless. However, they can be large and, because so few firms pay attention to them, are usually much less contested than share or retention. So companies seeking broad growth should round out their portfolio of growth initiatives, combining moves to anticipate the future, expand usage, and/or broaden the category with their more routine efforts addressing share and retention.

Add dimensions, add value

Drawing new customers into a category and to an existing product bypasses conventional rivalry (by definition) and can bring big rewards. For example, a portion of Starbucks' success is due to its ability to convince younger people who like sweet, flavorful, and energizing beverages to try something hot, albeit with the additional lure of a cool place to hang out. In effect, Starbucks graduates them from the soft drink category to a category of beverages based on high-quality coffee—for example, the range of lattes and lattes with flavors that characterize Starbucks' offerings. Similarly, Southwest Airlines was able to accelerate its growth rate by offering a schedule that made it worthwhile for people to fly between city pairs a few hundred miles apart instead of driving, in effect pulling people from the ground transport category into the air transport category. Likewise, Enterprise grew both the car rental market and itself by making it easy and inexpensive for people whose cars were being repaired to rent instead of using public transportation or borrowing someone else's car.[1] In doing so, it sidestepped much of the ferocious head-to-head battle for airport-based business or vacation rentals. As these examples suggest, drawing new customers into a category and to a product in particular always involves a good dose of marketing and usually some degree of innovation.

Apple's extraordinary high-growth, high-margin performance over the past decade may well be due more to *getting customers to use "phones" in more situations, and more intensively*, than to the superiority of its devices relative to competitors. Apple iPhone® and iPad® mobile devices have sleek designs and smooth interfaces—but so do Samsung's and Motorola's devices.[2] What seems to have driven the growth of Apple's devices was the inexpensive, easy way customers could make the device useful in more situations—for game playing, navigation, taking and sharing photos, texting, etc. In general, a firm can stimulate "situation-based" growth in three ways: first, by getting customers who sometimes consume its products in situation "X" to consume it more often, ideally every time they are in situation "X"; second, by getting them to consume it in a new situation (situation "Y") where they haven't before; and third, by getting them to consume a bigger amount than they currently do. While smartphones are a particularly notable example of the possibilities of this dimension of growth, firms in more prosaic industries have grown this way as well. Arm and Hammer, for example, generated significant sales growth for its iconic yellow box of baking soda by getting customers to use the baking soda as a refrigerator air freshener as

> Firms that better anticipate where demand will be growing, and position themselves promptly and properly will grow faster than those that stay still or anticipate incorrectly.

well as for baking. The Milk Production Board, for another, has been successfully convincing athletes, especially young ones, that milk is a great after-sport replenishment drink and not just an accompaniment to cereal in the morning. Instead of accepting conventional industry wisdom on "where" their products should be used, these companies grew by adding new, and less competed, spaces to their mix.

Firms that achieve above-industry-average growth rates also *source their growth from the future* by anticipating the inevitable but tricky-to-spot shifts in growth rates for consumer segments, channels, and geographies faster and better than others. Industries inevitably evolve in uncertain ways. Short-term factors—fads, different rates of growth in different geographies, product variants—ceaselessly drive growth rates up in certain channels and consumer segments and down in others. Over the longer term, significant macro trends—connectivity, major changes in regulation, shifts in raw material availability, technology, globalization—reshape every dimension of an industry: who and where the customers are, where and how they buy, and what they buy. The simple point is that there is a "tide" in demand in every industry that rises unevenly along the industry "coastline," and firms that better anticipate where demand will be growing, and position themselves promptly and properly will grow faster than those that stay still or anticipate incorrectly. Toyota, for example, began aggressively working on its hybrid engine technology in anticipation of ever-higher fuel efficiency standards and gas prices even though, at the time, oil prices were low and CAFE standards had not changed for many years. When the USSR collapsed, and the Communist world opened up in the early 1990s, Coca-Cola Company moved swiftly and aggressively into a slew of markets, and has found that growth in these areas has more than offset declines in its traditional Western European and North American markets.

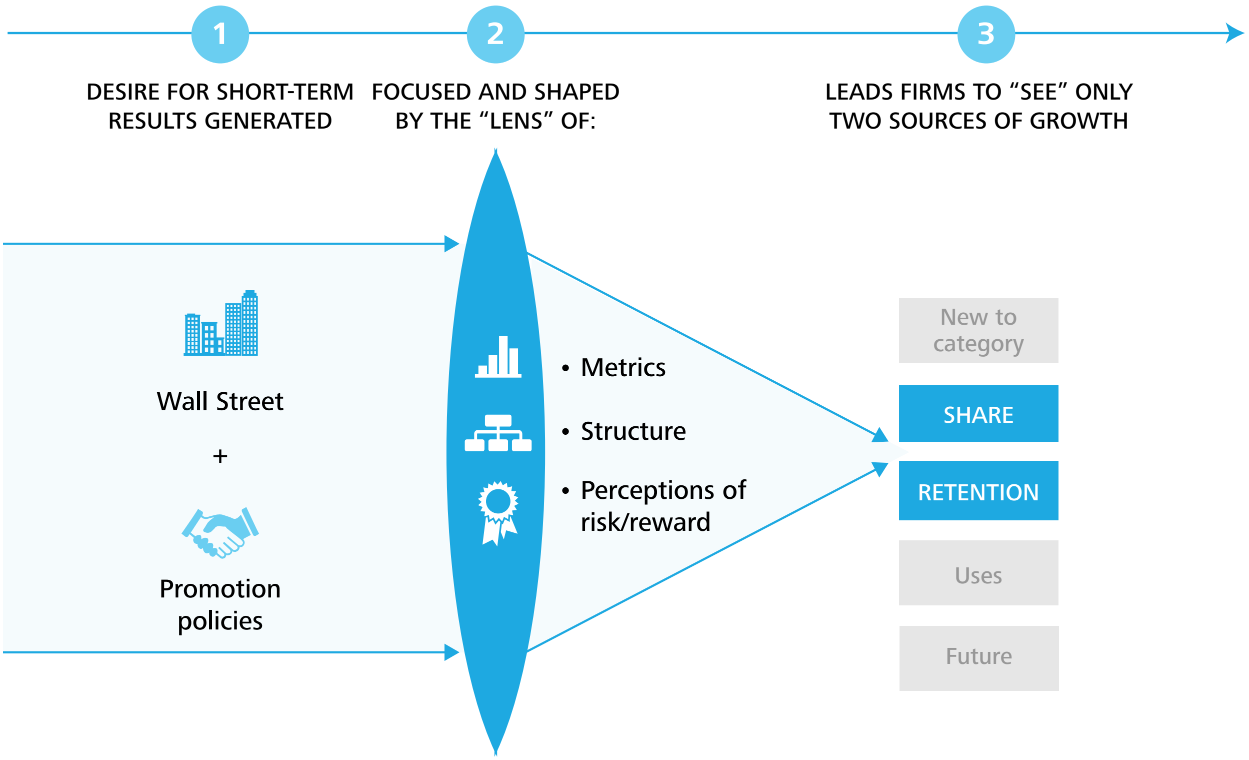
The firms in these examples have a more robust and diversified growth story than those who limit themselves to share and retention.[3] *But what prevents more firms from widening their options?* The "other three" dimensions of growth are hardly unknown to business leaders: They are part of business school curricula, and they are mentioned, albeit not often, in the business literature.[4] Yet, by and large, executives don't do anything with that knowledge. They channel their thought and investment into head-to-head battles. They really do stay within the box.

The road to slower growth is paved with our good intent (and choices)

IRONICALLY, many executives are limiting themselves. Their "2D" focus is the natural systemic outcome of individually sensible, practical choices they make about how to organize and run an enterprise—choices whose combined effect is exacerbated and baked into culture by common experiences and common outside pressures (for example, from Wall Street). As shown in figure 1, some of these choices and pressures combine to motivate executives to disproportionately look for and fund initiatives and activities that can "move the needle" relatively quickly. Certain other organizational choices and constraints then channel that desire for short-term growth into initiatives and activities that disproportionately—indeed almost exclusively—look to source that growth through share gain and retention.

Business leaders' nearly unquenchable desire for initiatives that can be designed, implemented, and show results relatively

Figure 1. External and internal pressures can lead companies to seek growth almost exclusively through share gain and retention.



Graphic: Deloitte University Press | DUPress.com quickly is born of both Wall Street's *and* their companies' promotional policies and practices. Wall Street's short-termism is too well documented to need much explication, but it does exert a steady background pressure on every company to find things that work *now*. The effect of companies' promotion policies on the source of growth that they look for is less well understood, because it operates indirectly and is therefore hard to see. Companies typically reorganize themselves and/or arrange for promotions every 18–36 months. This means that, on average, an ambitious, rising manager expects to spend 24–30 months in a given role, and then be promoted. (If they spend much more time in a role, they start to worry about their career prospects at that company.) While the specifics of their policies and criteria vary, companies all sensibly look for demonstration of competence as the rationale for promotion, preferably in the form of better results. Aspiring managers respond by trying to demonstrate their competence in a way that bears their stamp, that makes them visible—something that is new and better and notable. And they'd prefer not to incur much risk in doing so. This gives them a very strong bias toward initiatives that can be conceived and implemented within 6–12 months, and whose results can be seen in what they hope will be the final 12 months of their tenure.

This double-barreled pressure for short-cycle results gets channeled into institutional focus on gaining market share, or retaining existing customers, because of the metrics and organizational structures companies put in place, and because of the intrinsic differences in the speed, difficulty, and risk of pursuing the various possible sources of growth.

Almost universally, the core metrics for the revenue-oriented functions in companies are revenue—absolute and growth—and margin. They are important and measurable. Almost as ubiquitous are metrics for market share/share gain in a given period, as well as, increasingly, some form of customer satisfaction measure (think of the proliferation of Internet-based post-transaction customer satisfaction surveys for car dealers, health care providers, banks, and so on). It is not that companies do not care about other metrics, but, practically, market share and customer satisfaction are the most measurable, at the least expense. Further, these metrics are valued for intrinsic and cultural reasons in the two most market-oriented functions—sales and marketing. If, as the old saying goes, what you measure is what you get, then by explicitly measuring only market share and/or customer satisfaction/retention—and not the number/value of new-to-category customers; increased usage levels or situations; or presence in the fastest-growing segments, geographies, technologies, etc.—companies transform their managers' intense desire to get ahead into efforts to get ahead by gaining share or maximizing customer satisfaction. They literally will not look anywhere else.

The attention drawn to share and satisfaction is further reinforced, in many industries, by corporate decisions to create departments and groups dedicated to share gain or to customer satisfaction. While not ubiquitous,

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companies in a wide swath of the economy, including the telecommunications, software, cable, retail, financial services, hospitality, and transportation businesses, often hardwire the focus on market share or customer retention into their structure. They establish groups within marketing and sales whose roles and charters focus them exclusively on the acquisition of customers from competitors or retention of their own customers. And these groups play important, if not dominant, roles in designing the marketing and sales efforts of their companies. In the United States, for example, these retention groups spend upward of $50–60 billion a year on loyalty programs that involve, cumulatively, about 2.8 billion members.[5]

In sum, promotion policies and expectations, along with Wall Street, create a demand for short-term results; metrics and organizational structures convert the demand for near-term success into a demand for share gains and better retention. What then seals the logic of share/retention in managers' minds is their belief that it is intrinsically easier, faster, and less personally risky to gain share and/or retain customers than to position for the future, grow the category, or increase product usage. "Experience" teaches them that they can get share by clever but modest tweaks to pricing or to messages, or by modifying package size or format. It also teaches them that it can be hard and risky to try to focus on the long-term growth available from anticipating the future, or to rely on marketing or market development activities to reshape demand. Of course, what experience teaches is usually wrong—very wrong. On the one hand, share gains are nearly impossible to hold in the absence of fundamental, decisive competitive advantage in product or cost, which most firms do not possess. On the other hand, while it does take time, reshaping or growing demand is often easier to do than many think. Executives come to fundamentally overestimate the odds and value of share gain and underestimate the feasibility and value of growing usage or the category.

Enabling "5D" growth: Rethink structure, merit, and insight

IT would be difficult for business-unit-level executives to change the full range of organizational elements that cause and sustain tunnel vision, and CEOs, who can change them, are loath to—they, more than any, are tied to shorter-term objectives. However, there are a handful of relatively easy, almost bolt-on, initial moves and investments through which CEOs and business-unit leaders can start tapping into the non-competitive sources of growth in a meaningful way.

Create complementary groups

First, senior leaders can establish distinct, empowered teams with meaningful budgets to focus on the most promising noncompetitive sources of growth. Each team should address a specific type of noncompetitive growth—that is, one for category development and another for usage development. And each team has to have the scope and authority to design and commission product variants and go-to-market campaigns tailored solely to its strategy, and to do so in parallel with whatever mainstream campaigns the firm is running for acquisition and retention. Pharmaceutical companies routinely establish separate teams to demonstrate to regulators and doctors that the same drug is safe and effective in multiple indications, that is, in treating different diseases or different aspects of a disease. They have learned that it is very difficult for one team to do an excellent job addressing very different sources of growth.

The authority to do things differently matters greatly, especially early on. Indeed, the rationale for separate, complementary teams is that the fundamental nature of the marketing and sales task differs across the types of growth. On the one hand, campaigns intended to gain share or retain customers are usually built around frequent, very short TV, radio, and email/banner ads that remind customers about the benefits of a brand or compare and contrast it (favorably, of course) to a rival brand. The key "news" in the ads is often a promotion—a price cut or a boost in a loyalty program. Campaigns intended to expand usage differ in many ways. These campaigns cannot just remind; they have to engage and educate. They must show customers that there is a better way of doing something. So, communications are necessarily longer—60-second TV spots or even 10–15-minute infomercials. The messages and stories are more complex: They introduce the product, show it being used, compare and contrast it, and paint a picture of a better life. The most effective tactic would be to actually get potential customers to handle and use the product in the new situation, which means mounting sampling-type efforts alongside the traditional media. And to achieve that kind of sampling, companies often have to enter or create new channels. Clearly, the design of a great campaign to gain share differs significantly from the design for a great campaign to expand usage, and warrants, if not requires, different teams.

When business-unit heads and CEOs sanction multiple, parallel campaigns, they often create heartburn and, initially, a good bit of political resistance. After all, the resources for these new sources of growth are seen as coming from resources that would otherwise be used for acquisition and retention. But management should not flinch.

Change both metrics and promotion: "Land two, launch two"

Second, the way team leaders dedicated to a new source of growth are measured and promoted also matters a good deal. Typically, a manager's performance is measured against both quantitative goals (for instance, revenue growth and market share) and qualitative objectives (for example, completing certain initiatives). Both should be modified if a firm wants to achieve "5D" growth, which will involve investment in the new systems and capabilities to gather new data and changing criteria and practices, especially with respect to promotion. To begin with, each team created to pursue a new source of growth will likely have to design and operate a custom-designed tracking system in order to generate metrics that allow for a fair evaluation of how successful they have been. Product-line revenue numbers are too high-level—they are affected by the work of all the teams. What is needed are metrics appropriate to the growth source. Most firms' tracking research samples only customers in the category and gathers information on overall purchases, consumption, and brand choice, meaning it is only possible to calculate changes in share and retention. So firms have to modify and/or create new tracking research to get the right data for pursuing different growth sources. A team focused on growth through new-to-the-category customers will have to create a tracking system (or modify the existing one) to sample people outside and inside the category, and to carefully track the behavior of transitioning customers. A team focused on increasing usage, by contrast, will need a tracking system that isolates existing customers' behavior in a much more granular way: brand choice and usage by each occasion.

It is equally important to change qualitative measures and promotion policies to get the right level of attention on new sources of growth. The issue is a timing mismatch. Promotion cycles in most companies are generally shorter than the time needed for initiatives and campaigns aimed at the new sources of growth to be designed and implemented properly. If being on track means promotion every 20–24 months, as is commonly the case, then managers will agree to be measured on only those initiatives that they can design, implement, and see the results from within 12–14 months. That translates into a bias away from taking the time to develop deeper insights and the multidimensional, engaging educational campaigns needed to draw people into a category or change their usage. This bias for short-cycle, share- or retention-oriented initiatives in managers' yearly objectives can be reversed by changing promotion criteria. What it takes is making it clear to aspiring managers that they cannot be promoted until they have brought, say, two of their predecessor's longer-term growth initiatives to a successful conclusion *and* have designed and are well along in implementing at least two longer-term growth initiatives of their own; that is, they have "landed two" and "launched two." The point is not how many initiatives to land and launch, as it could be one or three; rather, it is to make managers accountable for growth initiatives that last longer than they expect to remain in a particular role.

> Insights about customers and the future is the fuel of non-competitive growth.

Different and deeper insights

Third, top executives can insist that their teams dig deeper for insights, pushing them to reallocate existing research funds and then, when and where it is needed, providing additional funds. Insights about customers and the future is the fuel of non-competitive growth. If the newly established teams do not see the world differently, or see things that others don't, then those teams will not be able to create distinct growth programs. Unfortunately, most firms spend too little on research, and worse, the vast majority of what they do spend is focused on tracking—that is, on tracking brand health or share, or advertising effectiveness. Not enough is spent on *discovery*.

Specifically, senior executives can insist that the new-to-category and the new-uses teams relentlessly pursue insights into the daily lives and thinking of customers and non-customers, largely through ethnographic and neuroscience-based research methods. The real key to noncompetitive growth is the ability to understand what customers are trying to accomplish and feel in different situations and occasions, and do so in detail and over time. Understanding the job, to use Clayton M. Christensen's term, is critical for knowing how to tweak the product to be more valuable in a new-use situation, or to draw someone into the category, and is equally important for determining how best to communicate with potential customers.[6] Noncompetitive growth is won one occasion or situation at a time.

Senior executives should also support the research agenda of their future-oriented team(s), and devote more of their own time to structured thinking about the direction and pace at which their industry is evolving. Most new things in an industry are long foreshadowed; the impact of demographics on demand, the rise of different channel formats, and the twists in consumer preference or in regulation—all of these can be seen in the market years before they become the new reality. Management teams often "know" about these changes but ignore them because they are "too small to move the needle" this quarter. A key to repositioning a firm to take advantage of industry evolution is to ensure that the future has a share of management's mind commensurate with the opportunity. Today, many management teams devote almost no formal time to considering where their industry is headed, or trying to judge how fast it can get there—or if they do, it may be for a couple of hours during a once-a-year strategy review. The antidote is to exaggerate the future deliberately—to spend a couple of hours *every week* considering the evidence of the magnitude, pace of change, and direction of change in their industry, and how to make money from that evolution.

Creating your own playing field

POGO, the lead character of a popular cartoon strip in the mid-to-late 20th century, once famously said, "We have met the enemy—*and he is us*." He might as well have been a CEO making a candid assessment of his company's growth prospects. The world outside a company certainly poses big challenges to its growth—demanding customers, difficult suppliers, and tough rivals, along with the headwinds posed by a volatile global economy. The *world inside*, however, poses equal or greater challenges to a company's organic growth. The way companies measure and promote their leaders and the way they structure and focus their teams typically lead them to focus narrowly on just two dimensions of growth: gaining share among and/or retaining existing customers. No matter how well they execute, the sheer competitiveness of the world bounded by those two dimensions makes it harder to grow faster than the industry average.

Any company can stop being its own "growth enemy," but only if it is willing to widen its vision and hence its options. There are at least three other dimensions of growth always available to a company—namely, drawing people into the company's category, convincing existing customers to use more of its products, and positioning itself to take advantage of the natural evolution of its category before rivals do. By tapping one or more of these, *companies can define their own playing field*, and because it usually has less competition than the "2D" one most of their rivals constrain themselves to, they can achieve a higher rate of growth and better margins.

There are four straightforward but unconventional moves executives can make to diminish or abolish the "growth enemy" they themselves have inadvertently created and sustained. They can broaden and lengthen the way they measure key P&L leaders, and change the promotional policies for them—for example, by requiring aspiring general managers to successfully "land" longer-term growth initiatives launched by their predecessors, as well as to "launch" new longer-term growth initiatives, before they can move up. A second move is to create or dedicate teams focused on sources of growth other than gaining share or retention, and to give them the authority and budget to run distinct campaigns. The third and fourth moves are all about boosting the company's ability to see the market in new, deeper ways: namely, to invest more heavily in ethnographic and observational research into customers' lives, and to invest more time and thought into detecting, anticipating, and figuring out how to exploit key trends in the industry.

Endnotes

1. Enterprise, annual reports, 1995–2007; Enterprise, TV advertisements, 2000–2007.
2. *"5D" growth: Sourcing growth outside the rules* is an independent publication and has not been authorized, sponsored, or otherwise approved by Apple Inc.
3. Their leaders say to themselves, in effect, "My industry will grow more or less at GDP over the next few years, say, 1.8% a year. We've got the product and distribution to match that. But we can get another 0.4-0.5 percentage point of growth a year by working closely with our customers to help them see how our products can be really valuable in a couple of situations where they don't use it today. And if we can repackage and reprise some of our products right away, we can 'ride the coattails' of the really fast growth we are seeing in that new distribution channel. It's small today, but we can probably get another 0.2 percentage points of growth out of it in the next few years. So we should grow 30-40% faster than everyone else."
4. It is remarkable how little attention seems to be paid to organic growth in the management literature. An examination of the 257 articles in the *Harvard Business Review* between 2008 and 2013, for example, turned up only 10 with some aspect of organic growth (e.g., sales, product line strategy) as their main topic. Arguably the intent of the other articles, on topics like finance, operations, risk, human resources, and so forth, is to contribute to growth, but the connection is not direct.
5. McKinsey, "Loyalty: Is it really working for you?," *Forbes*, http://www.forbes.com/sites/mckinsey/2011/12/01/loyalty-is-it-really-working-for-you/.
6. Clayton M. Christensen, Scott Cook, and Taddy Hall, "Marketing malpractice: The cause and the cure," *Harvard Business Review*, December 2005.

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