When the Going Gets Tough, Keep Growing

As the global economy slows, oil prices rocket and the credit crunch bites, Columbia Business School Prof. Rita Gunther McGrath's session at IESE's "Leading Growth in Difficult Times" conference in March seems prescient. Here, the strategy and innovation guru offers advice on how to maintain growth in a tough business environment.

"Congratulations, you did a great job, but now you're being downsized."

Who wants to have to say such a thing, let alone hear it? But in times of economic strife, the choice is often stark: reinvent or die.

Strategy and innovation guru Rita Gunther McGrath advised CEOs on how to do this at "Leading Growth in Difficult Times," a four-day program held at IESE's Madrid campus in March.

The **Columbia Business School** professor joined IESE faculty including Profs. Julia Prats, Ahmed Rahnema and Pedro Videla in teaching business leaders how to keep renewing their companies' offer.

"*MarketBusters: 40 Strategic Moves that Drive Exceptional Business Growth*," is one of two books McGrath has co-authored. The international hit clusters its field-tested strategies into five core areas: transform the customer experience, give products and services a makeover, redefine performance and profit drivers (key metrics), seize on industry shifts, and open or exploit new markets.

McGrath elaborated on how to apply the ideas and highlighted some industry shifts ripe for exploitation.

Stay awake

It may sound like a cliché now, but the perennial "reinvent or die" dilemma remains a real one, McGrath says.

"Clearly in a world where new technologies are continually making new business models possible, the chances of maintaining what we used to call a "sustainable" competitive advantage using the same model are slim. In free markets, competitors copy, match or undermine any advantage you can create, while customers become more demanding and less willing to pay premiums.

"That leaves only two strategic choices: figure out some way to continuously renew the core business (as **Apple** does so aggressively with its iPod/iTunes franchise) or learn to develop new advantages that replace the older, eroding ones.

"The first thing is being open to the data. People are often lulled into a false sense of security by their own success. When evidence mounts that the world is changing they start off ignoring it, then deny the reality and try to prop up a myth of a glorious past. This critically delays corrective action.

"An example is the **Blockbuster** video -rental chain. Its business is clearly in decline, but **Blockbuster** didn't engage in business-model reinvention until it went into crisis mode. At the same time, **Netflix**, which pundits had previously written off, has continually innovated and enjoyed strong growth.

"After you've got awareness, the second critical component is enough investments in non-traditional or non-core areas so you have diversity in your portfolio. People are often so concerned with squeezing every last bit of growth out of the core business that they neglect to invest in future options.

"The third major step is discipline around growth. Learn to treat uncertain projects differently than the core business. Get these small little experiments developed to a point where you can actually execute against them. The last thing is you need to withdraw resources from businesses without a bright future.

"That's very difficult because often the people in power in a company are those who were successful in the previous core business. To tell them, 'Congratulations, you did a great job, but gee, guess what, now you're being downsized,' is very difficult," McGrath said.

Growth generators

Assuming the above steps ensure survival, what will deliver the "blockbuster" growth promised by *MarketBusters*?

"The first point is to follow a rapidly growing niche as it grows. If you find an area of new need, for example, social networking, and you can get a favorable position in it, you can grow.

"A lot of famous growth stories have taken place like that. A well-known example is **Microsoft**, which based its growth on the underlying PC business.

"A second strategy is to take your initial, favorable niche and try to replicate it via geographic or footprint expansion. Many small companies do that by licensing or setting up a combination of subsidiary and wholly-owned companies.

"A third one would be by acquisition. A lot of companies get rapid growth through fill-in acquisitions, not monster ones. If you need a new capability or brand, sometimes you can fill that by acquisition. **Cisco** is an example of a company that does this."

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Capitalizing on the credit crisis

MarketBusters urges CEOs to capitalize on, or spark, major upheavals in their sector before competitors do. It says they should identify and exploit industry flux, including fluctuations in business cycles, value chain restructures and second-order effects. So is the financial crisis a shift companies could and should exploit?

"Sure. What you're seeing now is a lot of smart money is going into assets considered to be undervalued. People who have successfully built up cash positions and have solid balance sheets are able to take advantage of opportunities their competitors can't get at."

McGrath noted that these very same people had not so long ago been regarded as idiots because they had big cash balances and weren't taking advantage of leverage. "Now you look at where leverage is getting some people!"

Omens of opportunity

So what seismic shifts could be the bedrock of future success?

"In the book we talk about four different ways that industries can change. One way is when there is a change that affects all the players and will change everything forever. An example would be deregulation or reregulation.

"I suspect one of the side effects of the credit crunch will be a massive bunch of new regulations and risk-management practices affecting financial services.
"Another trend we look at is more gradual but is one you can anticipate. Sectors like organic food, "green" energy and health-related industries are in the throes of those kinds of changes.

Entrepreneurial instinct

"In a previous book we studied habitual entrepreneurs. They have distinct practices they repeat but can't articulate. They would say it's instinct but if you look at what they do, it's a very systematic set of things.

"They are always looking for opportunities but they keep them in a mental inventory. When the time is right they will tell you, 'Oh, that's instinct,' but they were busy collecting these ideas all along.

"And they are very parsimonious. The old watchword is 'Don't buy new if you can buy used or lease, don't lease if you can borrow, don't borrow if you can beg, don't beg if you can scavenge.' Keeping costs down brings more freedom.

"So never underestimate luck, but what is the great saying about it? Luck is when preparation meets opportunity. That's where instinct comes in, what you've done to get yourself ready as a business."

Julie Butler