

## **Unstoppable: Finding Hidden Assets to Renew the Core and Fuel Profitable Growth**

TOM CARLEY: I'm Tom Carley, Senior Vice President of Strategic Planning for The New York Times Media Group. This is another edition of Pixels + Print and today we're talking with Chris Zook, who's head of Bain & Company's Global Strategy Practice. Chris is going to talk about his book, *Unstoppable: Finding Hidden Assets to Renew the Core and Fuel Profitable Growth*. Tell us a little bit about your past and your current role.

CHRIS ZOOK: I've spent about twenty years of my career at Bain & Company, punctuated with a couple of other diversions. I've spent most of it in the United States, but I'm currently living in Europe – probably will finish my career here, because I think Europe is filled with a lot of very interesting stories of potential growth.

My role within Bain is head of the Global Strategy Practice and codifying our intellectual capital on the topic of how companies find the next wave of growth. That's led to the three books I've written over the last six years, and most of my client work is focused on that topic of evaluating growth opportunities that companies are wrestling with.

TOM CARLEY: What in particular inspired *Unstoppable*, the third book? Was there a trend that you were seeing that you felt needed to be addressed?

CHRIS ZOOK: *Unstoppable* really completes the trilogy, and it focuses on what you think of as the life cycle through which most successful strategies ultimately evolve, focusing deeply on your core, and mining as much as you possibly can out of it. Maybe a company like UPS would be an example. And the book *Profit from the Core*, my first book, was really about that focus phase.

My second book was about pushing out into boundaries around the core, into new territories. Nike moving into many sports with the same repeatable model would be an example of that. *Beyond the Core* was about the odds of success for different growth formulas.

And then third, all growth strategies ultimately reach some natural or unnatural limit, and that's what we call the redefined phase of successful strategies that make it around. Companies that successfully redefine their strategy, like companies described in the book *Unstoppable*, are those that have a chance to go back through the focus-expand-redefine cycle again.

What inspired the book *Unstoppable* was a recognition that strategies do go through these phases, and our seven-year research project at Bain actually did have those three phases of studying our own case examples and mining, in great detail, a database of eight thousand companies over 20 years that we followed to try to understand the patterns of strategies that underlie success and failure.

TOM CARLEY: What is happening in our global economy? It's making it hard for companies to find sustained and profitable growth. Is something changing?

CHRIS ZOOK: Well, in a way, that seems anomalous, because the world economy is certainly continuing to grow, and has been growing. But I think what is changing dramatically is the pace of business, which continues to speed up. The metabolism of business is speeding up, and you can see it in so many different dimensions. For example, the average CEO tenure is now four to five years, where it used to be eight. The average share of common stock, in investors' hands, used to be held for eight years several decades ago. Now it's held for eight months.

The life cycle of strategies is shortening. Actually, the average lifespan of companies is shortening. The average lifespan of their leaders is shortening. And yet business systems designed to see these changes, and to make the changes, and to adapt companies, are not evolving as fast as the outside world. I think that's why some of the seminal statistics in *Unstoppable* emerged, which showed that, a couple decades ago, maybe fewer than one in two companies would encounter a crisis in the core over a 10-year period, such as bankruptcy, dramatic strategic change, or being acquired.

Whereas over the next decade, I think you can safely guess that as many as three out of four companies will encounter such a crisis in the core. So it's about metabolism and speed in a world of fast-moving capital and information and people, more than ever before, less friction. Competitive advantage is more difficult to maintain than it ever was, and therefore profitable growth is of more fleeting duration.

TOM CARLEY: You speak often about the core and its importance. Is self-awareness of the core an issue? Does management sometimes not understand what their core is, and they lose sight of it?

CHRIS ZOOK: It's interesting; after seven years of studying literally hundreds if not thousands of case studies and talking to managers about the difficulties of finding sustained and profitable growth, a couple things jump out at me, along those lines. One is the observation that only one in 10 companies, over ten years on average, achieve even a modest level (five and a half percent, five percent) of profitable growth and earn back their cost to capital, on average, over ten years. So growth is extremely difficult.

And in grasping for new sources of growth, in a world where almost all companies aspire to that but few achieve it, you see a range of patterns. You see imperial overreach, like Vivendi, into totally new markets. You see companies like Bausch & Lomb, years ago, leaping from their strong core contact lens, into markets they didn't really understand. You see a range of companies that are paralyzed by shifts in their core, such as Kodak or businesses in the photographic industry.

When we have traced back as best we can to the root cause of companies either going into the wrong strategy in search of growth or having difficulty mobilizing and figuring out what to do next, almost always it has come down to some element having to do with self-awareness and, in some cases, even self-deception.

It reminds me very much of the research that was done in the 1970s by the Yale researcher Janis, in the book *Groupthink*, which looked at many governmental decisions under pressure and found that when difficult times occur, such as in the case of business, the pressure and threat to the business model, groups often can tend to restrict external information coming into the business, reinforce their own biases, stay with their core for too long, and perhaps not see some of the flaws in their success formula of the past that will not carry them forward into the future.

That's why over eighty percent of the companies that we profiled in *Unstoppable*, unfortunately, were businesses that encountered crisis before they were able to change. It's very difficult to have the self-awareness and then the courage to act before crisis sets in.

TOM CARLEY: As some companies redefine their core, or move away from it, they opt for this "Big Bang" strategy, and you talk about this, leaping into a hot market or buying a very big company. Can this make things worse for a company? What does the analysis show on that?

CHRIS ZOOK: When a company begins to believe that it is encountering the limits of its growth formula, if it has waited a little bit too long to act, it can feel as if it is against the wall and needs to grasp, under the pressure of investors and boards, to make a bold and decisive act towards new growth.

Sometimes that can be in the form of making investments in hot markets, moving away from the core. Sometimes it can be in the form of large diversifications related to the core, but where the plan isn't fully thought through, whether it's Disney buying Cap Cities or McKesson buying into the software business years ago. Maybe even DaimlerChrysler, Mattel-The Learning Company; AOL Time Warner would probably be the classic.

And I think what has emerged, from a retrospective analysis of large numbers of these sort of large transforming acquisitions, are two things. One, the odds of success have tended to be much less than 10 percent. Basically, not too much different than playing the lottery for your growth strategy.

Number two, almost always, those types of large acquisitions have not solved the fundamental issue deep in the core of the business that was being eroded. They might have distracted attention for a while, but when those businesses ultimately shed those acquisitions, or began to return to the issue in their original core, they so often found that it had gotten worse and they hadn't solved it.

It's very tough to solve complex strategic problems with one cut of the Gordian Knot. So I think that's what this shows. It's a distraction. It placates those that are crying for action but are not responsible for it, but it can actually cause the deeper underlying problem to get worse.

TOM CARLEY: In the book you mention the "Transformation Office." Can you tell us how this affects the rest of the company? Where does it report? And what is the dynamic of this office in a company?

CHRIS ZOOK: Occasionally, when companies trigger major change across their business model, like some of the businesses we refer to in *Unstoppable*, from De Beers to some of the major telecom companies that are transforming themselves now, many of the initiatives cut across units within the company.

In order to have coherence to a strategic restructuring program that may have elements of cost reduction, may have elements of acquiring new capabilities, may have elements of field testing new business models, and will obviously have some tracking functions, we have found that it is useful, temporarily, to have a group of four to seven people—depending on the size or scope of the project, it could be as many as twenty—at the corporate office, with a head of this office reporting to the CEO, and indicating that the transformation program is one of the CEO's highest priorities.

The group sets up the periodic review meetings for each initiative and schedules it to make sure that the senior managers are there. They do very visible and even public tracking of the key metrics of success, in a very open way, and publish those. They become the repository for changes that might be needed to be made in the strategy as learnings evolve.

The classic example is Samsung's unbelievably amazing transformation story, from near-bankruptcy in the mid-'90s to now one of the top electronics and technology firms in the world. Slow adaptation: it works less and less well in a world that is speeding up and companies don't have natural mechanisms to adapt in this way. That's why such a construct sometimes needs to be created.

TOM CARLEY: Turning our focus just to the external environment that companies operate in, you distinguish between "the market" and "profit pools." Can you explain a little bit about that?

CHRIS ZOOK: All companies sell goods and services and are usually very good at tracking how many of those they sell—how many automobiles you sell, how many packages you deliver, how many bicycles you sell—and at the price at which those bicycles are sold, and probably even at the retail mark-up. So they have a pretty good sense of the size of revenues in the market, the size of revenues at different levels

of distribution, and often of their market share in revenues and units. And that can often be very useful for tracking competitively, in some ways.

But if you really want to understand the future attractiveness of a market, or what it will be like to invest to enter the market, the dimension of where the profits are made becomes absolutely critical. It's very important to understand what are the driving factors in order to earn profitability. An example might be in 1995, the photographic industry in the world earned 1.7 billion dollars of profit for all the participants, from Kodak to Canon, in film to processing to cameras to lenses.

Interestingly, a decade later, the profit had actually doubled as the switch to digital happened, even though digital photography is deemed, in some sense, to be free, because it's digitized information we transfer. But yet the storage devices, the Scandisks, the digital cameras that are replaced faster and faster, and some online services all have profit characteristics that allowed the industry to become twice as profitable.

If you were one of the incumbents in 1995 and trying to think about how you wanted to participate in the industry going forward, having your viewpoint on where the profits were going to shift from, which was film, and what it was going to shift to, becomes absolutely essential.

I think it's also essential to think about market power and influence in an industry. It's just another lens that is more difficult for companies to use; it's more difficult data to obtain, where the profits are and what props them up, but I think it's as valuable as anything in evaluating growth and, most assuredly, sustainability.

TOM CARLEY: In your own industry, consulting, is there any of the perils and the promises you outline in your book that ring true there?

CHRIS ZOOK: It's interesting; the world of Bain has had different elements over its history that I think have lessons that you can see, in the lenses of the book *Unstoppable*, on transformation. One is Bain was the early creator of Bain Capital, now a completely separate company spun-off, but it's now a fifty-billion-dollar under asset company in private equity, where private equity is going through, obviously, dramatic transformation now, going from public to private, going from small to large deals, going from less transformational to more transformational, going from less ability to use leverage and more need to develop growth.

So you have industries like that that were almost adjacencies to the business we're in that are massively transformational. Within the core consulting business of Bain I think we've much more stayed in the "focus and expand" segment. The business has grown steadily between 15 and 20 percent since the early '90s, and most of the growth has come through new geographies, such as China or India, new segments of the market, like consulting to private equity, and new product areas that we've developed. So it's much more core and adjacency, but you can see some signs of change.

You can see the average project, in some ways, shortening in duration. You can see more information coming from the Internet and Bain even moving some analytic capabilities and research capabilities to India. I'm beginning to see some of the signs of early needs to redefine at least some of the steps in our core. But so far, it's been several decades of "focus and expand," not quite redefine.