The ABC's of Sustainable Growth

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In today's economy employees are often uncomfortable with the concept of "new" and "change." Innovation, creativeness and new ideas can intimidate employees, even management at firms who have a good track record, but haven't necessarily been challenged or hardened to a difficult business environment in the past. The key is to minimize shortfalls and be prepared to be in a better position for a rapid turnaround once the economy turns. Many people "talk the talk", but fail to "walk the walk". It all boils down to avoiding the paralysis that makes people want to hold on, rather than actively create change, especially during the murkiness of a deteriorating business or market condition.

From my experience, three key ingredients distinguish companies with sustainable and profitable growth:

- Differentiated products
- Proprietary positions
- Customer acceptance

DIFFERENTIATION

Successful market leaders with sustainable growth strategies marshal their resources and provide a product, service or something distinguishing markedly different than competition. Sometimes this difference has an immediate effect in the market, whereas other times, the difference takes time to establish itself. Take for example the PC industry, Dell created a better business model than IBM and lead the industry for a number of years while IBM, Gateway, Micron and others followed. Lingering in the shadows was Apple Computer, with personal computers, but with different software. Without being in the mainstream or supported by Microsoft software, Apple targeted the universities, publishers and other market niches with miniscule market share. The business community wanted no part of Apple and its incompatible software. Now Apple has created compatible software with PC's, the popular iPod, the iPhone and reportedly has other nerdy things in development. Without fanfare, consumers gained confidence. Apple now has 10 percent personal computer market share and on the path toward challenging for the number one position. Apple is arguably a poster-child of company product differentiation and an example of how leadership in one area creates a halo effect on the company as a whole while fostering sustainable growth. 3M with its proven business model of offering unique solutions has had a similar reputation for years.

There are countless examples of companies who came from nowhere with new ideas where differentiation by product, branding, services or some other distinguishing characteristic, which has vaulted them to a leadership position. Examples include: FedEx, Wal-Mart, Toyota's Prius, Gleam Toothpaste, Dior, Sony, Nucor, First Solar, McDonald's, AARP, Nike and so on. Even Mohammad Ali, "The Greatest", became a brand, as has Warren Buffet and Donald Trump, who is simply known as "The Donald."

PROPRIETARY POSITION

A proprietary position pretty much speaks to itself. Whether it's know-how, a trade secret or patent, the idea is to be the only entity in a specific space. This does not mean there isn't competition from in-kind products, but it does mean nothing else is exactly the same. This concept leads back to differentiation and the idea of distinguishing a product in the same market. The difference being companies reinforce their positions with an additional barrier to entry, protecting products in the market. Take for example, Nike. Early in their history, Nike created a novel athletic shoe construction and in 1984 signed Michael Jordan to become the image for "Air Jordan" shoes. Since then, Nike has recruited many notables to represent their brand: Nolan Ryan; Wayne Gretsky, "The Great One"; Mia Hamm; Tiger Woods; Bo Jackson; and Lance Armstrong to name just a few. Nike added the concept of internal self-belief with the slogan "Just Do It" and their position as the leading name in athletic wear, equipment and shoes is unmatched in the industry.

Another example might be the little company that could! Who would have guessed the popularity of plastic shoes? The folks at Croc's did. They created a market and proprietary position where none existed in a highly crowded field of footwear. What about Kevlar® fiber from DuPont? When Kevlar was first marketed in the late 1960's, as "Fiber X" there didn't seem to be much potential other than use as tire cord. DuPont overbuilt the first manufacturing facility in anticipation of growth, but use in tires never materialized, but with a little imagination they grew the business adding new facilities in recent years for application in ballistic vests, ropes and many other end uses, including fire resistant clothing such as firemen's bunker coats. DuPont knew they had a proprietary material with extraordinary properties and capitalized on it. The Donaldson Company developed Ultra-Web®, a thin nanofiber web first cast over a base filtration media substrate 20 years ago. Larger particles in an air stream are captured on the upstream fine fiber surface and easily cleaned for reuse by various means. Today, over 30 companies are trying to create competitive nanofibers, but none can match the business model and proprietary position Donaldson developed and continues to maintain while producing tens of thousands of yards of filtration media a day.

CUSTOMER ACCEPTANCE

The third and most critical leg of the stool is whether a differentiated and proprietary position product will be accepted and most importantly "bought" by customers. It's all well and good to create novelty, but unless there is a need and customers are willing to buy the product, such positions have little value. We've all seen great products that don't sell. The most famous example was the Ford Edsel, which arrived on the scene in 1956 and died in 1960 with only 84,000 cars sold in 4 years and a loss of over $350 million, which converted in 2009 dollars becomes $2.6 billion. In Ford's case, the Edsel styling was simply too radical. It was certainly differentiated and Ford had a proprietary position with tons of media notoriety at the time, but customers had other ideas of what they wanted their car to look like.

Another big mistake remains the belief by companies is their new "whiz-bang" product will be bought at an elevated selling price compared to incumbent products. In a few cases, with superior marketing, companies have established a market position at the time with pricing vastly higher than others in the market, such as with Gore-Tex products. However, in most situations, this is not feasible. For example, environmental issues are on everyone's mind today. However, bio-plastics, ethanol fuel, solar energy and wind-power all face significant growth hurdles unless they are price competitive with traditional sources and delivery systems, unless they are legislated into law and/or funded by government. Product value is always a difficult issue and a common mistake when inventors, inexperienced marketers, or senior managers feel they have created something special and price products too high. The relatively low cost of pre-market research is a lot less expensive than the on-going mindless promotion of technologies whose cost is exorbitantly high comparable to market needs. Marketing's first rule is to only sell what customers want and at a price they will pay.

SMART GROWTH

Often companies struggle with growth, especially companies in commodity markets. It need not be that way. Some companies do all the right things in R&D and product development, but too often marketing and senior management set the wrong direction in the first place or decisions in marketing products is grossly inadequate. How often does a customer ask a company to develop a product for them? Then once it's created they say they no longer need it or they buy from competition or worse yet, the customer didn't understand the market well enough and the component made has little to no interest by the ultimate customer(s).

It's been said a company can differentiate anything. Kinko's differentiated copying; Monsanto, corn; EBAY, pawnshops; Starbuck's, premier coffee; Cargill, bio-polymers; Coke-Cola, water… imagine differentiating water in the crowded field of bottled water. If companies can differentiate water and clean air, the way Filtrete® filters has with filters, what's left? Well, Miracle-Gro differentiated earth, which leaves fire…and believe it or not there is technology in final development that will allow utilities to raise the temperature in the combustion chamber of coal-fired power plants to double the BTU output of coal for an overall net reduction of pollution. With these and other examples, we have differentiation and solutions that ancient man believed made up life – earth, air/wind, water and fire. So, if the substance of life of mythical man can be made distinctive, who says technology, product, brand or whatever can't be differentiated.

CONCLUSION

In conclusion, desirable and sustainable growth all comes down to a three-legged stool; differentiated products, proprietary positions and producing and properly marketing products customers want to buy. The implementation of a sustainable growth strategy begs the question of where to start and how to create a plan. The most difficult hurdle is to first recognize the need for "change" and to take action.

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