



Breakout Growth

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What is Breakout Growth and why do we care, especially in a shrinking or stalled economy?

Just Google, Bing or Yahoo the words “Surviving, Business, and Economy” and you’ll have an endless list of articles to choose from like these:

“Surviving a Slowing Economy” - Entrepreneur.com

“Surviving the Storm” - Business Week

“How Businesses Survive A Recession” - StartupNation

“A Better Way to Cut Costs”- McKinsey and Company

And so it goes. They all have recurring themes focused on holding down costs, cash management, reorganization, leadership and organizational changes, R&D strategies and the like. We call these Bunker Strategies.

These are all certainly sound approaches to survival. If you don’t use them you may indeed fail. However, a huge opportunity may be missed if that’s all you focus on. Instead, we advise our clients to always think more aggressively about growth, especially in tough markets and economic conditions. Harvest has coined the term *Breakout Growth* to reflect this strategy and approach.

So what’s the big deal? Why is Breakout Growth important?

First, if successfully executed, it gets you into the BCS, or Bowl Championship Series. This metaphor implies that you will find yourself as one of the top competitors in your space, if not one of the top two, which should be your goal.

Second, it will keep you from failing. Sure, you can grow yourself into trouble. Unchecked growth can cause a lot of problems that could conceivably lead to failure. But

that’s a scenario we would all like to be forced into managing. Growing will prevent failing.

Third, having a crystal clear breakout growth strategy will keep you and your team focused on what is important. As you will learn in a moment, focusing on the customer, their pain and how and what they buy is what you should be paying attention to day in and day out, and losing sleep over every night.

Last, it creates real shareholder return and wealth – faster. If your growth curve consistently exceeds your competition, then you are in play for an attractive exit or other liquidity scenarios.

Before sharing some examples of companies who have broken out, let me bring home the point that Breakout Growth is important in both good and bad times. The measurement of it may be different, but it is important none-the-less.

An excellent example of bad times is Intel. Read Andy Grove’s book “Only the Paranoid Survive” to get the details - Intel doubled down on R&D, plant capacity and other investments over the course of three recessions in the 60s and 70s as it shifted from being a semi-conductor company to a chip maker. The competitors were in their bunkers. Intel was positioning and growing its way to first place.

Breakout Growth Examples

Home Man in the aisle.

Depot

Bernie Marcus eventually learned that most prospective customers (men) wanted to make home improvements but feared they lacked the necessary skills. The fear of disappointing the wife and looking inept was

visceral. The Home Depot solution was what they called “the man in the aisle” which hit a nerve that took the company to new heights.

Google Search for what people like you are searching for.

Why did Google breakout from all of the other search engines? The best among several reasons is the technology it developed to reference the most used sites when doing a search. It’s simple - why not list the sites you are searching for in priority of volume usage by people like you? That way you know you are being taken quickly to highly qualified sites.

Microsoft Standardized personal and business productivity software.

Look back to the roaring software days of the ‘70s and ‘80s. Lots of great applications, some killer, most were best of breed point solutions. Think Lotus 123, Wordperfect, File123 to name just three. Microsoft had its operating system monopoly underway and companies like Sybase had great database solutions. All of these companies were successful to some degree. But what personal and business consumers really wanted was “pretty good” applications, operating systems and a database fully integrated and working together. Microsoft found this nerve and fed it with MS Office which is still one of its main bread winners today.

IBM A “safe way” to buy computers.

IBM was reinventing itself once again in the ‘40s and 50’s. Computers were moving from the lab to corporate America. The company was beginning to compete with other emerging players like Burroughs, Univac, NCR, Control Data and Honeywell (also known as the BUNCH). They all had equal or superior technology. So why did IBM have as much market share as the entire BUNCH by 1970. The answer is they hit a nerve with CIOs buying the mammoth and expensive computers who feared they would not work out and would be left facing their boss and loss of employment. IBM’s solution was high-touch support business and technical services that worked with the CIO’s to ensure success. The result is a well worn phrase in the industry that “CIOs are never fired for buying IBM”.

Fedex Absolutely, Positively Overnight.

This one’s pretty simple in hindsight. At the time, Fred Smith’s thesis that corporations would pay a premium to transport documents seemed, well, way out of the box. But we now know that the global workplace was on the verge of wanting everything to move faster and would be willing to pay for it. FedEx tapped into this nerve and essentially owned the overnight business for years.

EBay Entrepreneurialism for the masses.

Finally, why did eBay breakout? They were certainly one of the first internet auction engines. But that alone would not have won the day. What did win the day for them was designing their platform and solutions to

Breakout Growth

cater to entrepreneurs and small companies who would use eBay as their storefront, with built in high-volume consumer traffic, at a fraction of the cost. In effect, it created a market for anyone to buy-sell anything.

Inhibitors

There are numerous inhibitors to breakout growth that we can categorize into two groups – internal and external. An important internal inhibitor is lousy performance by the board and management. This covers a lot of ground but it includes the sad fact that the market has a pre-existing problem and management hasn't figured out how to solve it. It has gone through all of the traditional marketing research machinations to develop an offering that it thinks will solve the problem, but it doesn't have the know-how, culture or skill to tap into that nerve that will shorten the buying cycle.

Another inhibitor is poor financial performance. When companies are in financial peril, the last thing they consider is growing their way out of the problem. Most often, and for many good reasons, management pulls the knife out to take out costs. Make no mistake, this is important. But the impact is that attention is drawn away from the core problem – that the company is not growing fast enough and is not gaining market share.

Despite best efforts, several external inhibitors can kill or maim growth of any kind. Among others, they include a declining or chaotic marketplace, low cost foreign competition or capital constraints. The point is that inhibitors always exist in one form or another and to varying degrees. Plan for them, see them and defeat them.

Breakout Growth

Let's define *Breakout Growth* before we go any further. This is one of those things that can be subjective. Your idea of it may be vastly different than mine.

Here are some ideas to consider:

1. It is **relative to the company's size**. If you're small, any growth is breakout. If you're very big, 15% revenue growth may do it. Heck, 3% margin growth may be cause for celebration.
2. It is **relative to the company's market share** and size and maturity of the market. A 25% share gain for a new emerging market is outrageous, and breakout by anyone's standard. 2% is not in a large firm. The key is to define break out growth for your business and segment.
3. You **have broken a logjam**, meaning the curve has been negative or flat for years, but now the trajectory is upward, steeper and exciting.
4. You have **grown two or more times than the market has itself grown**. Simply exceeding the market's growth could be declared breakout if the market space has been flat.
5. You have far **exceeded the company's historical growth trends**. Something has changed with your industry space, or demand for your offering has spiked for some reason.
6. Your growth **curve moves from linear to exponential**. The world has changed. Hopefully you caused it to change. Or it could be that you benefited from a *Strategic Inflection Point* as Andy Grove of Intel would say. Either way, you have broken out. Take advantage of it.
7. But, it only counts if it is **dramatic and a sustained market share gain**. Doing it once doesn't matter.

Breakout Growth is a dramatic positive shift in market share accompanied by significantly higher profits.

Breakout Growth

Anomalies don't count over the long haul. What does matter is a persistent market share gain over time that makes you the winner and will deliver real value to shareholders and customers.

Here is our clear definition:



Breakout Growth is a dramatic positive shift in market share accompanied by significantly higher profits.

Scenarios

Firm #1 is a medical products company. Its industry niche has contracted 67% in the last year due to a Medicare reimbursement policy change. The company increased its market share in the last year by 3% while 20% of its competitors have failed. Is this Breakout Growth?

The point is that Breakout Growth is evident when a condition is reversed and a significant improvement in market share occurs.

Before we get to that, the overarching reason for why companies have problems with growth has to do with a consistent gap between their

offering as positioned, and the market's real demand or how buyers really purchase it.

Firm #2 is a relatively new entrant in the social networking online gaming space. It has achieved 25% CAGR in its first three years of existence. The niche in which it competes has grown more than 100% over that same period. Is this Breakout Growth?

Something is wrong. Either the offering isn't right; the demand isn't right, or both. When we say the offering isn't right we mean the company hasn't developed something of real value, it is marketed or priced inadequately, or perhaps it is not truly differentiated from the competition. In other cases, management and the sales team just do not understand what will make buyers make the decision. Hopefully it's not all of the above.

You are correct if you answered yes and no, respectively.

The point is that Breakout Growth is evident when a condition is reversed and a significant improvement in market share occurs.

When we say the demand isn't right we mean the market may not be ready for what the company has to sell. In essence it might be too early for the market to adopt. It could also mean that buyers are confused about the varying offers to solve their problems, including yours, and the result is a delayed or even flawed purchasing decision.

Means to an End

There are several ways to go about it. One approach is to go on a roll-up binge of your competitors. That certainly solves for the market share measurement. You

Breakout Growth

But a prime reason for the gap is simple. It's called missing the Strategic Nerve. Companies with offerings that have real market potential, but that are experiencing slow, flat or modest growth are missing out because they have not found what is known as the *Strategic Nerve*, a term Steve Hindman coined.

Steve's definition of Strategic Nerve is "to position, or explain, your product in a way that solves a pre-existing problem that most customers in your target market find frustrating and your product eliminates that frustration".

In summary, finding it is a good thing. In fact, it's critical. It helps a company close the gap between the value proposition of its offering and the market's pre-existing emotional and visceral desire for that offering. The result will be a dramatically increased growth curve that delivers a significant, profitable market share.

Sustaining Breakout Growth

Finding the Strategic Nerve and achieving Breakout Growth may seem daunting, but the real work actually begins after you've found it. Look at it this way; finding the nerve and a steeper growth curve is a point-solution. This is really difficult. But once you do it, sustaining the curve is your new business model. Once you find the nerve, then you design, build or modify your sales, marketing, production, delivery and support engines around it. You then use traditional marketing and sales principles to do this. This is how you will sustain the growth opportunity.

Summary

Breakout Growth is important in both good and bad times, perhaps even more so as a strategy in bad times.

Get into the BCS. Go after one of the top two slots in your competitive mix - winners don't fear risk, they manage it. If you don't care about breakout growth your chances for wealth creation are low, certainly lower. Just the attempt and process will improve the value of your enterprise. You might not achieve it, but you should try in order to avoid failure, stay focused and improve shareholder value.

Inculcate Strategic Nerve thinking, culture and process into your business model.

Finally, if you think you've positioned your offering just right, but have not achieved breakout growth....try, try again.

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