The 6 Keys to Organic Growth

How Great Companies Stay Great

September 15, 2006

Georgia Tech
Executive Masters in
International Logistics Class
Objectives

1. Share with you my research results to be published in *The Road to Organic Growth* (McGraw-Hill, Dec. 2006);
2. Through interactive discussion: Apply findings to your companies.
**Background**

1. Built financial model to discriminate between organic growth, acquisition growth, and earnings management techniques;
2. Less than 5% of over top 800 public EVA creating companies studied are consistent high performance organic growers.

Organic growth represents underlying vitality, strength and sustainability of the business.
Research Findings

1. The 6 Keys to Organic Growth
2. The Myths about Growth
3. The Organic Growth Progression
4. An Organic Growth System
5. Organic Growth Tensions
## Primary Research Companies

<table>
<thead>
<tr>
<th>American Eagle Outfitters</th>
<th>Wal-Mart</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best Buy</td>
<td>ADP</td>
</tr>
<tr>
<td>Outback Steakhouses</td>
<td>PACCAR</td>
</tr>
<tr>
<td>Stryker Corporation</td>
<td>Gentex</td>
</tr>
<tr>
<td>Waters Corporation</td>
<td>Harley-Davidson</td>
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<tr>
<td>SYSCO</td>
<td>Bed Bath &amp; Beyond</td>
</tr>
<tr>
<td>Tiffany &amp; Company</td>
<td>TSYS</td>
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<tr>
<td>Walgreen's</td>
<td>UPS</td>
</tr>
</tbody>
</table>
Performance of 22 High Organic Growth Companies

<table>
<thead>
<tr>
<th></th>
<th>NASDAQ 100</th>
<th>DJIA</th>
<th>S&amp;P 500</th>
<th>OGI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative Returns</td>
<td>160%</td>
<td>101%</td>
<td>80%</td>
<td>779%</td>
</tr>
<tr>
<td>Annualized Returns</td>
<td>12.7%</td>
<td>9.1%</td>
<td>7.6%</td>
<td>31.2%</td>
</tr>
</tbody>
</table>

Average Return on Equity (1999-2004): **28%**
My Expectations

1. Better talent
2. Better strategies
3. Unique products/services
4. Low cost provider
5. Best educated leaders
What I found:

The 6 Keys

1. An Elevator Pitch Business Model;
2. A “Small Company Soul” in a “Big Company Body”;  
3. Measurement Maniacs;
4. A People Pipeline;
5. Humble Passionate Operators as Leaders;
6. Execution and Technology Champions.

All 6 – Seamless, linkage, consistent, self-reinforcing
Elevator Pitch Business Model:

1. Simple – easy to explain – easy to understand;
2. Focused - disciplined;
3. Stable;
4. Iterative and incremental.

Some companies are product focus
Some companies are customer focus
Some companies are value proposition focus
Small Company Soul In Big Company Body

1. Entrepreneurial culture;
2. Entrepreneurial structure;
3. Employees have “ownership” of customers, their results, and careers;
4. Strong central controls over quality, risk, investments, and capital, etc.
Measurements – Measurement Maniacs

1. Daily – weekly operational/behavioral metrics;
2. Metrics drive accountability;
3. Frequent feedback with transparency;
4. Alignment of measurement – accountability – rewards;
5. High standards.
6. CFO becomes CMO.

Engineer Process the Value Chain
People Pipeline – Employee Engagement

1) Employee → Customer → $
   Satisfaction → Satisfaction

2. Promotion From Within;
4. Implied Social Contract;
5. Hire for Fit;
Leaders

1. Humble;
2. Passionate;
3. Internally Focused;
4. Operators;
5. Fight arrogance, complacency, and hubris.

Destroy elitism and eliminate executive perks
Execution Champions

1. Engineering process the entire value chain;
2. Iterative constant improvement;
3. Technology enabled;
4. As internally focused as market focused;
5. Built a consistent, seamless, self-reinforcing system focused on growth.
“Fads” vs. Facts

To be a consistent high performance organic growth company, you do NOT need:

1. The best talent;
2. Unique products or services;
3. Diversified strategies;
4. To be a disruptive leader;
5. To be the lowest cost provider;
6. To offshore or outsource;
7. Great vision.
A Self-Reinforcing System

Culture & All
  & Focus
Structure & On
  & Desired
“Entrepreneurial Ownership” & Behaviors
  &
People Policies
  &
Measurement and Accountability System
Manage Growth Tension

1. Employee Friendly vs. High Accountability
2. Employee Engagement vs. Cost Efficiency
3. Celebrating Successes vs. Arrogance, Group Think, and Complacency
4. Internal Focus vs. Market Focus
5. Entrepreneurial Soul vs. Central Control
6. Stability vs. Change
<table>
<thead>
<tr>
<th>STABILITY</th>
<th>CONSTANT CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>Execution</td>
</tr>
<tr>
<td>Business Model</td>
<td>Iterative Constant Improvement</td>
</tr>
<tr>
<td>Leadership</td>
<td></td>
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<tr>
<td>Internal Rules of the Game</td>
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</table>
The Common Progression of Organic Growth

1. You expand your business geographically;
2. You introduce complimentary products for existing customers;
3. You move into a new customer segment with your products;
4. You add complimentary services for existing customers;
5. You focus on cost efficiencies and productivity;
6. You focus on technological productivity in the supply chain, logistics, and manufacturing functions;
7. You use technology to focus on customer knowledge and service;
8. You then focus on people measurement, hiring, and training;
9. You add or acquire a complimentary new concept;
10. You change from a product company to a customer solutions company;
11. You start over at step 1; and
12. You simultaneously improve in all 10 areas yearly.
Great Companies Are

1. A Work in Process;
2. Execution Champions;
3. Behavioral Focused;