

IDENTIFICATION OF US VALUE CREATORS

Value creators outcompeting their industry competition primarily through organic growth, are identified using the Organic Growth Index (OGI), which is a series of tests to single out top performers using the following parameters in this order:

- (1) EVA per capital invested for three time periods (top 300);
- (2) CAGR of sales compared with industry average;
- (3) Growth in cash flow from operations compared with industry avg;
- (4) S&P's core earnings test (income from ongoing operations);
- (5) Correct for effect of relaxing trade receivables conditions;
- (6) Correct for effect of manipulation of earnings;
- (7) Market share growth 33% acquired in applicable time period.

This approach in a US study has yielded 23 companies that were winners in at least two of the three researched time periods, i.e. 1996-2001, 1997-2002 and 1998-2003:

American Eagle Outfitters Inc, Automatic Data Processing Inc, Bed Bath & Beyond Inc, Best Buy Co Inc, Brinker International Inc, Dollar General Corporation, EOG Resources Inc, Family Dollar Stores Inc, Gentex Corporation, Harley-Davidson Inc, Mylan Laboratories Inc, NVR Inc, Omnicom Group Inc, Outback Steakhouse Inc, PACCAR Inc, Ross Stores Inc, Stryker Corporation, SYSCO Corporation, Tiffany & Company, Total Systems Services Inc, Walgreen Co, Wal-Mart Stores Inc, Waters Corporation.

POPULAR BELIEFS THAT ARE MYTHS

Many commonly held beliefs about organic growth are simply not true. Contrary to these beliefs this is the case:

- (1) You do not necessarily have to have the best people but you do need high employee engagement;
- (2) You do not necessarily need unique products or services but you do need good-enough products, great customer service and great execution;
- (3) You do not necessarily need to control a unique supply of raw materials nor control a unique distribution channel;
- (4) You do not necessarily need sophisticated or diversified strategies but you do need a strategy or business model that the average employee can understand;
- (5) You do not necessarily need to be an innovation leader with big breakthrough discoveries but you do need to constantly iterate and incrementally improve;
- (6) You do not necessarily need to have the lowest labour costs;
- (7) You do not necessarily need to be global;
- (8) You do not necessarily need to outsource or head off-shore;
- (9) You do not necessarily need an MBA to run your business;
- (10) You do not necessarily need a charismatic CEO;
- (11) You do not necessarily need to be located near talent, raw materials or customers.

SIX KEYS TO ORGANIC GROWTH

The best value creators all work hard on creating a consistent, seamless, self-reinforcing internal system that drives value-creating organic growth behaviours. The following six characteristics proved to be the true keys to achieving sustainable organic growth:

1. ELEVATOR PITCH BUSINESS MODEL

Simple, easy-to-understand strategy and business model that can be explained to and understood by line employees. Focused strategy. Evolving through incremental improvement.

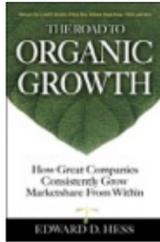
A narrow and focused strategy and simple business model is one that every employee can communicate clearly and concisely to virtually everyone. With simplicity comes understanding and engagement because employees know where the company is headed, how it will get there, and what their individual role is in that growth. Employees understand why their job is important and how it fits into the big picture. Simplicity is what makes consistent high growth possible.

2. SMALL-COMPANY SOUL IN BIG-COMPANY BODY

Being entrepreneurial at the point of customer contact. Giving employees the power to act to meet customer needs, while having strong central controls over quality, supplies, finance, etc. Giving people with customer contact the authority, power, responsibility and accountability for results. Ownership mentality is key.

Employees having ownership of the customer are held accountable for results and share in the rewards of those results. Entrepreneurial employees are energised and engaged in the day-to-day business because they feel that they have some control over their destiny - they have autonomy and respect - and they feel rewarded for their efforts. Being tough on results but kind on people.

The entrepreneurial environment is managed with strong central controls. as evidenced by sophisticated, frequent and transparent measurement systems that measure financial results and operational behaviours critical to driving the business model. Mistakes are detected and seen as opportunities to improve.



3. MEASURE EVERYTHING

Being a measurement maniac: financial and operational metrics and behaviours. Metrics become value-creating when aligned with accountability and rewards. Using metrics to give employees frequent feedback.

4. BUILD A PEOPLE PIPELINE

Having engaged, loyal employees and building a multi-layered talent pool. Consistent superior performance from line employees. Above-average loyalty and retention rates. Engagement without sacrificing accountability, standards or quality. Treating employees fairly and with dignity and respect. Promoting from within.

At high-growth companies there is a high level of trust in the system. Employees see results. They see the promotions from within. The link between performance, results and rewards is clear to them. There is an implied social contract that the rules of the game will not change midstream and that if you play by the rules, you will have a job with advancement potential. Employees work hard for companies where they believe they have a future and where they can have an impact.

5. LEADERS: HUMBLE, PASSIONATE, FOCUSED OPERATORS

Modest operator-engineering type CEOs who know their success is due to the work of others. Approachable and never complacent.

6. EXECUTION & TECHNOLOGY CHAMPION

Being better at execution, every day for every transaction. Engineered value chain through technology to drive efficiency.

PROGRESSION OF ORGANIC GROWTH

There is a common sequence in which organic growth leaders take steps to continuously drive organic growth. Simply put, their strategy is to acquire more customers, then to sell more products and services to those customers, then to enter a new customer segment, and then to focus on cost efficiencies and productivity.

- (1) Expand geographically
- (2) Introduce complementary products for existing customers
- (3) Move into a new customer segment with your products
- (4) Add complementary services for existing customers
- (5) Focus on cost efficiencies
- (6) Focus on technological productivity in supply chain
- (7) Use technology to focus on customer knowledge and service
- (8) Focus on people measurement, hiring and training
- (9) Add a complementary new concept
- (10) Change from product company to customer solutions company
- (11) Start over at step 1 and simultaneously improve multiple areas

EMPLOYEE ENGAGEMENT

The opposite of employee turnover is an engaged workforce. An engaged workforce is focused, committed, and continuously trying to be better, with a financial and emotional stake in the outcome. Engaged employees take responsibility for and ownership of their jobs, are held accountable for their results, and share fairly in the rewards. And they know that if they play by the rules of the game and work hard, they can advance, have a career, and maintain a long-term position with the company. High organic growth companies create environments that foster consistent high performance, high employee loyalty and employee engagement.

SUMMARY

High organic growth companies keep the big things stable (strategy, business model, leadership, internal rules of the game) while constantly improving the details of execution along the organic growth chain of progression. It really is about execution: creating a system that produces high employee engagement, productivity and loyalty as well as a deep bench of humble operators as leaders who fight elitism, arrogance, hubris, complacency and self-satisfaction. Great organic growth companies have learned how to use employees and technology to create highly efficient and productive organic growth machines. These companies stand for the proposition that employee engagement and the creation of shareholder value are not mutually exclusive. Business is about execution, and execution only happens through and with people.

INPUT: hire for fit, culture of respect and dignity, understanding of role & purpose, frequent feedback, consistent and fair accountability /measurement/reward policies, implied social contract, promotion from within, entrepreneurial ownership, humble leaders

OUTPUT: employee engagement, better retention, more loyalty, better productivity, more intensity/focus/discipline, more trust

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