MICHIGAN
ROSS SCHOOL OF BUSINESS

Ross School of Business at the University of Michigan

Independent Study Project Report

TERM : **Fall 1997**

COURSE : **OB 750**

PROFESSOR : **Noel Tichy**

STUDENT : **Renee Robinson**

TITLE : **Motivating growth : a step-by-step plan to achieving higher returns on equity**

Motivating Growth

A Step-by-Step Plan to Achieving Higher Returns on Equity

Global Entrepreneurial Leadership Program

December 17, 1997

Renee Robinson

indication of risk and volatility.) Growing at a quick pace with an ROE under your cost of capital is the last place you want to be. Boston Chicken experienced phenomenal growth in the past few years until the market realized that all that growth was fueled by a cost of capital that exceeded its return on equity. Boston Chicken has a year to date return on –80%. This is why ***balanced*** growth is the objective.

Before going any further, clearly write up where you and your competitors are now. Often times, this can be enough motivation to change. Looking at the industry, are you out of shape? It is my belief that you can not even focus on growth until you get your house in order. Your starting point may be cost-cutting and reengineering. Maybe you are doing pretty well for your industry, but take a look at some of the star performers. How do companies like Coke, GE and Microsoft continuously maintain an abnormally high ROE? These companies did not just wake up one morning and decide to grow. They careful changed the nature of the organization to focus on growth.

Step 2: Change the Mindset of the company. This is the most difficult task that a company needs to tackle. If the growth objective is not embraced into the socialization of the organization, old habits will never change. Usually a catastrophic event is necessary; something that shakes up the organization and gets everyone's attention such as an energy crisis, recession or even a change in senior management. Just like people who have been smoking for twenty years, sometimes it takes a doctor telling them that if they don't quit they will die.

Strong leadership can change the socialized firm mindset. Leaders should articulate their point of view about the future and the path to get there. Senior management must understand and participate in the building of the growth model or they will become impediments to change. Time allocation and teamwork are necessary in building a model for growth. These senior managers are responsible for returning to the organization and challenging employees to commit to the firm's model for growth.

Step 3: Change the Organization Structure of the company. If you want to change the way the company does business you need to change the way it is structured. Incentive compensation should be more aligned to the new momentum. Knowledge management, meeting processes and informal networks need to be established. Different people will success in this type of environment, these people need to be developed and new people need to be hired. People need to be rewarded for taking risks that are aligned with the company objectives.

Step 4: Examine the value chain. What are your firm's core competencies? Where are your products in the value chain? How much of value chain are you getting a piece of? Do you really know your competitors? Growth can be found upstream or downstream the value chain or even in adjacent markets. Existing informal technology may help your firm leap frog into other products or markets. Clarify the value chain to everyone in the organization. People at all levels can help generate new ideas. Often it is employees who are closer to the product or the customer who can come up with the best ideas. Allow them to get into the process.

Step 4: Capitalize on Need-based Marketing. Perform a need-based marketing assessment of your customers. New marketing techniques such as conjoint analysis can help firms understand the customer's underlying value system to build better products with the features customer's will pay extra for. Take advantage of branding. Who would have thought that a chip maker could create one of the most powerful brands? Intel has done an excellent job of creating pull demand in an area where traditionalist never would have spent the time. Branding can be very powerful but great care needs to taken when working with brands. It is important to be sure that everything is consistent with the brand image or all of the time and effort spent in building the brand can be lost overnight.

Step 5: Expand your concept of distribution channeling. Look at new ways to get your products to existing customers that make their life easier. Investigate how to get your products in front of new customers. Establish new distribution networks. Create new alliances. Manage your inventory better with new technology. Partner with other companies to get greater access to markets. Increase your geographic presence. Explore!

Step 6: If you do not have it, acquire it. After going through this entire process, you will begin to notice that there are things that you may be missing. Perhaps you need more technology or expertise in a certain area. Try to hire people into the company who can add value to those areas. Joint ventures can be useful to learn new markets or gain expertise. Potentially buy companies who are strong in the areas that you lack. The important thing to remember about acquiring is that it has to make sense with the strategy. You must have a valid reason or else you will be getting yourself in trouble in the future.

Step 7: Putting it all together. All these steps need to be looked at, although not necessarily in the order presented. These should be seen more as a mosaic of levers that can be pulled to push ROE to an abnormally high level. Growth is a hard business. My best advice is to realize that the road is long but it is more than worth the journey. Think of how great it will be part of one of the elite companies that is able to maintain those incredible returns on equity. Good luck and keep your eye on the goal.

Raw Materials

Step 1: Historical Drivers

- Dupont Analysis
- Profit Margin
- Asset Turnover
- Exit Costs
- Cost Cutting
- Reengineering
- Industry Economics

Step 2: Mindset

- Leadership
- Commitment
- Teamwork
- Time Allocation
- Entrepreneurship
- Accountability
- Firm Vision

Step 3: Organizational Structure

- Incentive Compensation
- Knowledge Management
- Meeting Process
- Informal Networks
- Promotion and Staffing
- People Development
- Performance Appraisals

Step 4: Value Chain

- Core Competencies
- Adjacencies
- Competition
- Product Innovation
- Informal Technology
- Entry Barriers

Step 5: Distribution Channeling

- New Markets
- New Customers
- Distribution networks
- Internet Presence
- Alliances
- Inventory Management
- Partnering

Step 6: Acquisition

- Technology
- Expertise
- M&A
- Joint Ventures
- Alliances

FEB 9 1998

KRES
BUS. AD
LIBRAR

Global Fellow Paper Comments – Noel Tichy, Fall 1998

Name: Renee Robinson

Comments:

This paper is a very solid step in building a conceptual frame to guide empirical on the development of a growth audit for companies. The framework not only has a solide set of building blocks, but has a theiory of the case built into it.

The step by step process lays out the interdependencies of the categories. There is an opportunity to develop hypotheses that are testable over time.

The framework needs work to operationalize many of the variiables.

The next step in the process is to do a literature review to see what work has been done relative to each of the categories and the proposed interdependencies.

Noel Tichy

Noel Tichy