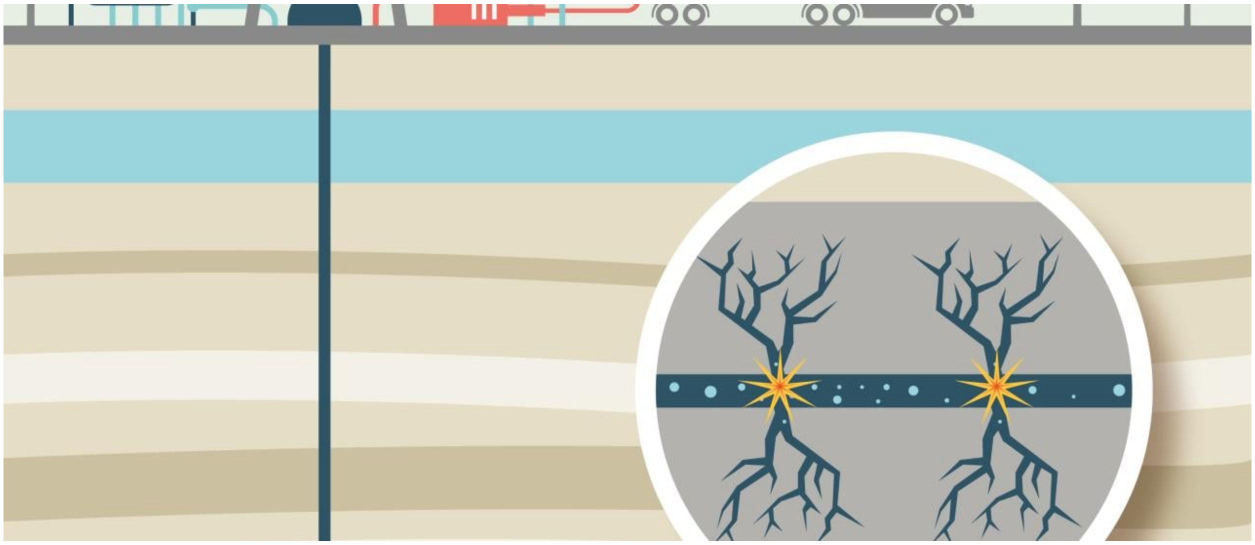
In Search of the "Alpha" CEO



By Ramesh Ramachandran (INSEAD MBA '98D), Vice President and Co-Head of UK office, GrowthMark

CEOs are still scrambling to emerging markets, but they could be running the risk of overlooking exciting developed market growth opportunities.

Selling automobiles, sneakers, fizzy drinks or washing machines to millions of striving, developing country customers moving up the disposable income ladder seems sensible enough. The rush to do this is well understood and justifiable and for international firms, even obvious, but as the growth strategies of these firms start looking increasingly similar, the question is do those strategies have enough stretch in them?

Clearly a focused growth strategy on emerging markets is no less worthy for being obvious. And there's still the execution to take care of – ensuring the right regional and country managers are in place; ensuring the right portfolio of products and services from the international stable are curated and adapted; finding the right local partners; setting targets. These are decisions and choices that need a high level of experience and skill – CEO level downwards.

But with more and more CEOs going this way, are they, in fact, risking too much reliance on emerging markets as an engine for growth? Some early signs of that risk have come through in several recent quarterly announcements across a range of industries.

How can their growth strategies deliver an “alpha” that goes beyond making big bets on emerging (and more volatile) markets?

Opportunities in developed markets

To deliver the “alpha”, CEOs need to drive sustainable organic growth from seemingly saturated developed markets. This goes beyond recalibrating business portfolios in the form of shedding low growth businesses and acquiring new, high growth ones. A successful “alpha” strategy would, for instance, take key flat-lining categories and turn them around – not just for a year or two through tactical promotions that yield temporary market share gains, but sustainably. Growth in crowded markets will come from driving technology deep into the business, uncramping existing business models and using partnerships to amplify growth.

Drive technology deep into the business

Not so long ago, digitisation meant digital audio or video or text. Today, even our social interaction is getting digitised (through social media) and so too our physical world – our activities, our locations, our health. For firms struggling with low growth, mature categories technology can offer unprecedented opportunities to increase customer engagement and deliver differentiated and arresting products and services.

Take, for instance, a traditionally low engagement industry sector like utilities and note how they are becoming more prominent through their smart metre and connected home-related initiatives. Google has acknowledged this sector’s growing relevance through its US$3billion acquisition of thermostat developer Nest, which it sees as a platform to create new conversations with customers and generate new revenue streams.

Other low engagement categories (such as cleaning products, fuels and lubricants, insurance and food staples) can do the same by bringing together the power of the cloud, of sensors and wireless technologies to create new points of contact with customers and develop new ways of monetising their customer relationships. This is a vital step in the journey towards alpha growth.

Uncramp the business model

Alpha growth needs proactive measures that reflect an understanding of current business model constraints but are not shackled by them.

A first step is to watch out for constraining business model assumptions that can become ossified orthodoxies in stable, low growth businesses. A few common examples - “the new product will slow down our production line and impact the profitability of current best sellers”, “our retail channel will not support this initiative”, “the IT build will take six months because it needs to be adapted to legacy systems” and so on.

Working within the boundaries of such assumptions, most firms end up with a fixed approach to conceiving, developing and commercialising new, organic growth opportunities in developed markets – creating the space for disruptive outsiders with new ways of commercialising to push in.

Take the irreverent **Dollar Shave Club** for instance which has taken on Gillette in the U.S. by converting a traditional product purchase to a subscription service that promises to drastically reduce the cost of shaving by delivering “quality razor blades to your door for as little as US$1/month”. Go beyond the humour in their successful web commercial and you see a strong and relevant customer insight – the almost resigned way in which many shavers accept the high prices in the razor category.

Or take Warby Parker which is challenging incumbents like Luxottica (manufacturer of RayBan glasses) with its unique online only business model that cuts out channels and promises customers “prescription eyewear that does not cost a fortune”. They are challenging some well-entrenched business assumptions in this space – that prescription eyewear needs a retail channel and that it needs to be very expensive. To drive home their point and reduce customer adoption barriers, they also have a home try-on programme that offers hesitant first time online users the opportunity to order, try and return five glasses of their choosing – all for free.

These firms are still young and while their story is yet to be told, they have clearly broken out of the constraints of business models in their categories to create distinct growth opportunities in saturated, developed markets. By identifying and challenging long held assumptions, CEOs can uncramp their business models and inspire alpha growth initiatives.

Partner to amplify

Firms in industries as unrelated as automobiles, garments, mobile phones, ice creams, vacuum cleaners and over-the-counter (OTC) drugs have more in common than seems obvious. Very often they are after the same customer, after a share of the same wallet. So a broader view of customer spending, decision making and walletary trade-offs can be a game-changer, when identifying growth opportunities.

If a customer goes for a significantly more expensive iPhone monthly contract, then in many cases she might end up spending less on coffee shops every month. If a family kick off a significant home improvement project, chances are they will cut back on holiday spending or on replacing their car or even on their frequency of eating out. Products and services offered by firms in very different industries can end up competing for the same customer dollar. Deeper insights into the interplay between different categories customers spend on and how that changes across life stages, can offer a powerful platform for growth.

This principle is at the heart of bringing firms from different industries together with the primary objective of finding new ways of delivering value to customers. These are cross-industry, customer centric partnerships predicated on pooling data and customer insights to build a joined up and more complete view of the customer's life.

For instance, what might a partnership between a home improvement retailer (e.g. B&Q, Lowe’s), a packaged holiday retailer (e.g. Virgin Holidays) and a residential mortgage provider (e.g. HSBC, Bank of America) be able to offer customers – could they for instance create a “premium flex” offering for customers where a fixed annual sum of money could be spent flexibly across home improvements, the monthly mortgage payment and the annual family holiday? Or could they join up with a credit card company allowing customers to earn points and spend them flexibly across these categories? To take a different customer segment as an example, what sort of cross-industry partnership might be able to offer working mums a guilt-free platform to spend on their young children’s needs as well as their own?

Successful cross-industry partnerships have several ingredients – among them access to insights and data on customer spending habits and trade-offs, the ability to make a leap from creative insights to commercially viable solutions and a shared willingness among cross-industry partners to work and succeed together. For progressive CEOs with a strong desire to reset the bar in their mature, slow growth markets, cross industry partnerships offer a strong platform to drive alpha growth.

The Alpha CEO

For talented CEOs of ambitious, international companies seeking to realise the full power of their firm's capabilities, fulfill their personal potential and deliver above average "alpha" growth to shareholders – it is vital to look beyond emerging markets and creatively tackle deep-seated growth challenges in their mature, developed markets. Leveraging new technologies, breaking away from business model constraints and nurturing cross industry partnerships can uncover exciting developed market growth opportunities.

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