



10X VALUE: THE ENGINE POWERING LONG-TERM SHAREHOLDER RETURNS

BY CHARLES E. LUCIER, LESLIE H. MOELLER AND RAYMOND HELD

What does it take to grow shareholder value at world-class rates? More than profit and revenue increases. It takes strategic innovation to make it into the top tier.

THE QUESTION OF how to achieve long-term sustainable growth in shareholder value is re-emerging at the top of the C.E.O. agenda. For many years companies have successfully focused their efforts on cost reduction through increased labor and asset productivity and have achieved short-term increases in shareholder value as a reward. Today, with their businesses re-engineered and running efficiently, these companies have refo-

cus-ed their energies into developing long-term growth strategies.

Aggressive revenue-oriented strategies are the most common approach to creating long-term value for shareholders. These strategies typically include acquisitions, new products that extend the line and marketing programs to improve customer loyalty and retention.

Unfortunately, our research indicates that these strategies can cause

more harm than good because superior long-term value for shareholders results only from a specific type of revenue growth: growth that results when a company delivers an order-of-magnitude increase in value to its customers (what we call “10X value”). An order-of-magnitude improvement in the value proposition — obtained through a mixture of product, image, service and price — not only stimulates growth by compelling customers

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to purchase but also enables a company to earn superior profitability. A 10X value innovation changes the industry's basis of competition and forces competitors to react, often by trying to copy the innovation.

We find that attempts to grow revenue rapidly without a 10X improvement in value are seldom successful and often counterproductive — either making costly acquisitions that are subsequently divested or “renting” new customers with the latest promotion or extending product lines at the expense of the long-term loyalties of current customers. The only reliable way to earn returns for shareholders in the top 10 percent over a period of 10 to 15 years is through a 10X value innovation. Of course, our findings do not invalidate the importance of rapid productivity improvements and revenue growth in all businesses. To sustain even average returns for its shareholders, a company must achieve continual improvements in its productivity and target increases in market share.

This article relates our findings on 10X value as a cause of shareholder value growth and discusses the implications for senior managers. These findings result from an ongoing effort by Booz-Allen & Hamilton to uncover the dynamics of growth. They are based upon an assessment of the creation of long-term

shareholder value by more than 1,300 large companies publicly traded in the United States during the past three decades, supplemented by case studies of 65 companies in the top 10 percent of shareholder value creation for at least a decade. While the quantitative research that underlies this article focuses on United States companies, our subsequent research suggests that the conclusions are equally valid in other countries. Indeed, many top-performing American companies (for example, Coca-Cola) achieved much of their growth by replicating their 10X value in other countries.

10X VALUE FOR CUSTOMERS

In a previous article, we discussed several findings on growth that contradict conventional wisdom:

- > The relationship between revenue

growth and growth in shareholder value — defined as increases in stock price plus dividends, adjusted for stock splits — is not close in either the short term or the long term. For example, despite significant growth in revenue between 1985 and 1994, US-Air, Fleming and Black & Decker had a modest or negative growth in shareholder value.

- > Additionally, industry growth rates are almost completely unrelated to the likelihood that a company will create superior shareholder value over the long term. Contrary to common thinking, companies in slow-growth, mature markets are somewhat more likely to create superior returns for shareholders than companies in fast-growth industries.

- > Finally, the tactics implied by traditional strategic planning — which

**EXHIBIT I
EXAMPLES OF STRATEGIC INNOVATORS WHO CREATED SUPERIOR
LONG-TERM VALUE FOR SHAREHOLDERS**

Company	Industry	1996 Sales (\$Millions)	Time Period
Wal-Mart	Discount Retailing	104,850	1970-early 1990's
Home Depot	Home Center Retailing	19,400	1980-early 1990's
WMX Technologies	Waste Management	10,400	1975-1994
Circuit City	Appliance Retailing	7,700	1970-1992
Tyson's Food	Chicken Processing	6,500	1970-1990
Nucor	Steel	3,700	1970-1992
Southwest Airlines	Airlines	3,400	1975-present
Shaw Carpets	Carpets	3,000	1975-present
Great Lakes Chemical	Specialty Chemicals	2,325	1975-present

Source: Booz-Allen & Hamilton

focuses on achieving advantaged market and cost positions in advance of competitors through superior planning and management — at best result in growth rates a few points faster than average and significantly less than the top-performing companies.

What then are the drivers of sustained superior long-term growth in shareholder value? More than 90 percent of the companies we studied that achieved top-decile returns for at least 10 years have been able to sustain rapid increases in operating earnings through:

- > The creation of an order-of-magnitude greater value for customers (10X value).

- > Top-line growth achieved by replicating the 10X value to attract new segments of customers (what we call a “growth superhighway”).

Creation of 10X value requires innovation, either in strategy or in products and services. Although the result is a breakthrough that can change the rules of the game, all of the companies we studied relied on a series of innovations, not a single “big idea.”

STRATEGIC INNOVATIONS

Strategic innovations — dramatic improvements in the entire business system that deliver value to customers — power about half of the highest-performing companies. These companies produce long-term value for shareholders by developing and constantly enhancing unique approaches to serve customers more effectively and

by sharing the value with customers. This often results in a value proposition that offers both better differentiation and lower pricing. The willingness to share the benefits with customers is an essential ingredient of successful long-term creation of value for shareholders, not only to drive top-line growth but also to stimulate additional improvements in the business system and remain ahead of competitors. Although it is not surprising

that a successful strategic innovator creates extraordinary value for its shareholders, we were surprised to discover that nearly half of the top decile of companies in each decade for the past 30 years are strategic innovators. Although strategic innovation is unusual in any one industry,¹ 5 percent of large publicly traded companies are strategic innovators.

Since strategic innovators change the rules of the game in their industries, the stories of most of the companies are well known. Nevertheless, three findings common to all of the strategic innovators deserve mention.

First, strategic innovations are not brainstorms or concepts that emerge fully formed: the initial concept is different from the ultimate game-changing innovation. Thus, strategic innovation requires not only a breakthrough

Strategic Innovation Concepts	Examples
<i>Power Retailing</i>	<i>Circuit City Home Depot</i>
<i>Bypass Step in Industry Value Chain</i>	<i>Tyson's Frito-Lay Dell Computers</i>
<i>Focus and Remove Complexity</i>	<i>Southwest Airlines Nucor</i>
<i>Full Exploitation of Brand with Consumers</i>	<i>Walt Disney Coca-Cola</i>

Source: Booz-Allen & Hamilton

**EXHIBIT II
EXAMPLES OF STRATEGIC
INNOVATION CONCEPTS**



idea, but also the commitment and the feedback processes to adapt the idea until it is successful. For example, Federal Express was founded to provide guaranteed overnight delivery, which was a breakthrough idea. However, the initial target market was critical supplies, such as medical supplies or parts. It was the later discovery that most of the actual volume was paper and the subsequent positioning around reliable delivery of important business material that really drove growth. Innovations that in retrospect appear to be a single idea were in fact the result of a series of linked innovations and adaptations.

Second, four broad concepts are responsible for nearly 80 percent of the strategic innovations in the United States in the past 30 years. Learning to adapt a concept like power retailing, which has transformed a series of retail



¹ In a study of 75 industries in the United States over 30 years, we found an average of .6 successful strategic innovations per industry per decade.

Company	Industry	1996 Sales (\$Millions)	Time Period
Boeing	Aircraft	22,000	1970-present
Intel	Microprocessors	19,950	1975-present
Merck	Pharmaceuticals	19,665	1970-present
3M	Materials	14,100	1960-1990
Microsoft	Software	8,671	1980-present
Gillette	Home Products	7,450	1980-present
Nike	Athletic Shoes	6,471	1980-present
Rubbermaid	Home Products	2,460	1970-1990

Source: Booz-Allen & Hamilton

Nucor moved into light structural shapes, medium structural shapes and finally flat rolled steel. Today, Nucor is the second largest steel producer in North America.

PRODUCT INNOVATION

Innovation in products or services that create 10X value for customers powers the other half of the top performing companies. These companies bring a series of successful “new to the world” products — either the actual physical article or its image — to market. Their

success lies in coupling an effective innovation process with superior product concept and repeating this success *time after time*. The key point is that just one new product is no longer enough to power superior shareholder value; top-decile growth in shareholder value requires getting new products right consistently.

Booz-Allen’s view² is that although the most successful product innovators are effective throughout the innovation stream of activities, it is excellence in one of the four activities — an innovation engine — that powers success:

- > Market understanding — defining customer and channel needs and opportunities ahead of competitors.
- > Technology management —

**EXHIBIT III
EXAMPLES OF PRODUCT INNOVATORS THAT CREATED SUPERIOR LONG-TERM VALUE FOR SHAREHOLDERS**

categories (including appliances, home improvement, tires, toys), to a new category is difficult and time consuming. An indication of the magnitude of the difficulty is the 15 years required for any of Home Depot’s competitors to create an equally successful format — even though they could build upon Home Depot’s experience. A strategic innovator’s competitive advantage is not the breakthrough idea, but rather the myriad details of the successful business system and the ability to adapt rapidly and improve.

Finally, to create superior value for shareholders, strategic innovators do not need to start in a large market segment. In fact, the companies that created the highest rate of return for their shareholders over a

decade were somewhat smaller (in revenue) than the average large publicly traded company at the beginning of the decade and larger than the average large publicly traded company at the end of the decade. Strategic innovators are much more likely to succeed when they initially focus on a peripheral segment. The innovator can learn how to make its breakthrough idea really work to deliver 10X value in the periphery, often without reaction from the dominant competitors focused on the core markets. Nucor illustrates the pattern. Nucor began as a manufacturer of steel joists and a regional manufacturer of reinforcing bars — the lowest-quality steel, of least interest to the major integrated mills. Over time,

²The Innovation Engine Series, Using Innovation to Power Growth, Booz-Allen & Hamilton, 1997.

insuring that the correct high-impact technologies are available when needed.

➤ Product planning — integrating market needs with product architecture to enable competitive specification, development and delivery of products.

➤ Product development — translating a product line or process specification into an engineered design that can be competitively delivered to customers.

For instance, Nike’s success comes from an understanding of its customers’ total experience with its product, including intensive managerial experience with the products and a special panel of athletes to provide feedback on designs and trends. Leading-edge products combine with powerful advertising campaigns using role models to enhance the customer’s athletic shoe experience. Intel, on the other hand, creates value from a focus on maintaining market leadership by using technology to constantly improve physical product performance. Before a new product is launched, a design team is working on the next-generation technology that will make the new product obsolete — bringing a continuous stream of higher-powered chips to the market.

In capital-intensive industries, driving value through continual product innovation often requires “new to the world” innovations that “bet the company.” For Boeing, the development of each new aircraft is a major decision, one that could permanently damage the company if it fails. For instance, from the late 80’s

to the early 90’s Boeing spent \$4.5 billion to develop the 777 aircraft, at a time that the company’s equity was \$8 billion. Nonetheless, the success of this aircraft has been instrumental in helping the company turn its sales numbers around during the current industry rebound. Intel has to make similarly risky bets on each next wave of microprocessor technology. While making these bets can be

Nike’s success comes from an understanding of its customers’ total experience with its product; Intel maintains product leadership by using technology to constantly improve performance.

frightening for all involved, they are required to deliver the stream of continual product innovation required to deliver 10X value. In addition, big bets provide a barrier to entry by less experienced companies, and this helps to maintain the product innovator’s superior value over its competitors.

GROWTH SUPERHIGHWAY

10X value enables a company simul-

taneously to offer customers a compelling value proposition and to enjoy superior profitability. However, to earn superior returns for shareholders, a company must effectively exploit its 10X value to sustain annual top-line growth of 15 percent to 25 percent without mistakes that negatively impact earnings. Whatever the source of their 10X value, the companies that created the greatest long-term value for their shareholders all created a growth superhighway — that is, the capability to replicate revenue growth along one targeted path.

All companies seek growth through some mix of market share gains within current segments, new segments, new geographies and acquisitions. Most companies try to generate growth through most of these paths. The companies that create the most long-term value for their shareholders are unusual in that they focus on one primary path. For example, Wal-Mart and Home Depot have grown primarily through geographic expansion, Shaw and WMX expanded by acquisition, Nucor and Rubbermaid pursued adjacent segments, while Intel primarily focuses on rapid rollout within its current segments.

Global expansion is an increasingly important growth superhighway. Coke’s ability to replicate its 10X value proposition overseas — especially in developing and supporting the local bottlers who sell and distribute the product — has been the principal driver of its growth. Similarly, Carrefour, the leading French hypermarket retailer, has had tremendous success in expanding its format in Latin

	Annual Rates of Growth			10-Year Cumulative Growth		
	Shareholder Returns*	Earnings	Revenue	Shareholder Returns*	Earnings	Revenue
90th Percentile	23.7%	25.9%	21.1%	841%	997%	678%
80th Percentile	19.1%	17.8%	13.3%	573%	516%	347%
50th Percentile	12.7%	9.6%	8.5%	331%	251%	226%

*Shareholder returns reflect stock price appreciation plus dividend reinvestment, adjusted for stock split.

Source: Booz-Allen & Hamilton

**EXHIBIT IV
FINAL PERFORMANCE 1985-1994**

America. In Carrefour’s case, international expansion into less developed markets has been especially effective because the hypermarket value proposition is more than a 10X improvement over the small local supermarkets and general merchandise retailers.

The best-performing companies invest in routinizing expansion along the targeted growth path. For example, Wal-Mart has a standard, very efficient process to build a new store, Home Depot excels in quickly penetrating a new metropolitan area with a critical mass of stores, and Shaw and WMX learned to install their 10X value creating system quickly in the companies they acquired. Once these companies stray from their growth superhighway, their performance can become highly variable. For example, Home Depot’s entry into Canada by acquisition and its formats targeted at other customer segments (for example, Expo) have not really panned out.

It appears that more than one growth superhighway may be viable in an industry. For example, between

1972 and 1985, WMX and Browning-Ferris each created 10X value for customers and top-decile returns for their shareholders, even though WMX grew primarily by acquisition and Browning-Ferris mainly by geographic expansion. Hence, the imperative appears to be less to select the correct growth path than to focus on one path and invest in building the capability to make it a superhighway.

MANAGEMENT IMPLICATIONS

Our findings demonstrate that creation of 10X value for customers along a growth superhighway leads to superior long-term value for shareholders. The four imperatives for top management to develop and exploit a 10X value proposition are: challenge, focus, differentiate management and lead.

CHALLENGE

Companies that create superior long-term returns for their shareholders have financial performance that is significantly — not incrementally — better than average. Increasing the rate of

growth in earnings and revenue of an average company by two or three points will not result in 80th or 90th percentile returns to shareholders.

By setting the strategic long-term challenge of achieving dramatically higher financial goals, a C.E.O. can help stimulate a fundamental rethinking of the business that might yield 10X value for customers.

FOCUS

The best-performing companies that we have studied all prospered by creating 10X value for customers in one business and by exploiting their advantage down one growth superhighway. Focus enables a company to continue to innovate, to gain leverage from scale as it grows and to sustain its advantage over competitors. Companies that lose their focus on one growth superhighway often falter in creating superior long-term returns to shareholders.

The multibusiness corporations like General Electric and PepsiCo that have created 10X value have done so in

only one business unit at a time (specifically, GE Capital and Frito-Lay). In part, this fact may merely reflect the inherent difficulty of creating 10X value. However, we believe that it will be very difficult for any corporation to create and exploit 10X value in two distinct business units simultaneously. 10X value creation is simply too demanding in terms of management talent, investment to finance rapid growth and the attention of the C.E.O.

One principal reason that large multibusiness companies have been less likely to create 10X value than single-business companies may have been an unwillingness to focus on a single business unit as the driver of superior long-term shareholder value creation.

The good news is that even in a corporation as large and diverse as General Electric, one division that creates 10X value and exploits the advantage along a growth superhighway can yield excellent long-term results to shareholders. For example, General Electric is an extremely well-managed company with returns to shareholders in 1985-1994 in the 75th percentile. However, without GE Capital's 23 percent annual earnings growth, the corporation's earnings would have grown at only 6 percent instead of 9 percent, and returns to shareholders probably would have been only average.

DIFFERENTIATE MANAGEMENT

Creation of 10X value for customers requires:

- Rapid incorporation of feedback from customers into the evolving value proposition.

- Willingness to invest in rapid growth, often before a compelling case can be made that the investment will pay off.

- Entrepreneurial culture with rapid decision making.

- Compensation heavily incentivized toward bottom-line growth or superior returns to shareholders.

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Although single business companies can embrace this model, multidivision corporations face a formidable challenge. The usual multidivision corporate planning and budgeting processes, culture and compensation systems are inconsistent with the 10X value creation model. For example, traditional strategic planning usually focuses on what is and what has been, whereas 10X value creation involves “new to the world” innovation. An analytical demonstration that something that has never been done will prove to be a superior investment is very difficult.

The solution for a large multidi-

visional company that wants to create 10X value in a business is to differentiate its management systems. That is, it can use different planning, budgeting and compensation systems in the division targeting 10X value and allow that business's culture to diverge somewhat. The more traditional planning and budgeting systems are well-adapted to businesses that are not trying to create 10X value. These systems can stimulate productivity improvements, target opportunities for profitability increases and market share gains, quickly match successful initiatives by competitors and insure that business units create and execute near-term plans consistent with a long-term strategic direction. The different planning and control systems appropriate for businesses creating 10X value will be the subject of a subsequent article.

LEAD DON'T FOLLOW

10X value creation requires senior management leadership. There are two key roles to be played: a senior champion who makes the refinement and success of the 10X value innovation his sole objective, and a C.E.O. who decides which bets to make and who creates the environment for success.

Creating 10X value starts with the conviction that a market is ready for value innovation, like that shown by Sam Walton in leaving Ben Franklin stores when that company rejected the idea of a “Wal-Mart” or by Gary Wendt and Larry Bossidy in building GE Capital acquisition by acquisition. We are not saying these leaders had a

“vision” that popped fully formed into their minds, but they did have the commitment to refine the idea until it succeeded, the willingness to make mid-course corrections and the ruthless execution to make the financials attractive while evolving down a growth superhighway. Although the C.E.O. usually plays the champion’s role in small entrepreneurial companies, in large companies the role does not have to be played by the C.E.O. (for example, GE Capital).

The C.E.O. plays three critical roles in the creation of superior value for shareholders:

- Setting the objective of truly superior (top 10th or 20th percentile) long-term returns to shareholders.

- Evaluating the opportunities for 10X value creation across the business units, betting on no more than one or two prospective growth engines and adjusting the bets as new information comes to light.

- Insuring that management processes, incentives and leadership of the targeted bets support 10X value creation.

In our discussions with C.E.O.’s of large companies, the major concern is risk: How likely is an innovative growth strategy to succeed? What is the downside if it fails? Our response is:

- If the C.E.O.’s objective is top 10th or 20th percentile long-term returns to shareholders, then there is no real alternative to a 10X value creation strategy.

- Since 10X value creation strategies typically involve pilot programs to refine the concept, significant financial commitments may not be re-

quired initially. Hence, the downside of the pursuit of an innovative growth strategy that is ultimately unsuccessful is less the financial loss than the time and management attention that

C.E.O.’s of companies with successful 10X value creation strategies consider them to be low risk: as long as they can sustain the 10X advantage, there is no need to worry about the actions of competitors or the cyclicity of the underlying market.

would have been used more productively elsewhere.

- Partially successful 10X value creation strategies can still produce excellent returns for shareholders, albeit returns that are sustained for a shorter period of time (as competitors are able to match the innovation quickly) or are “only” in the 70th or 80th percentile. For example, Procter & Gamble spends heavily on technology to improve products significantly (its R&D spending is about 4 percent of sales while Unilever’s is about 2 percent) and has developed the ability to globalize

the products rapidly. While Procter cannot claim every breakthrough — indeed, it missed such product ideas as pull-up diapers and peroxide and baking soda in toothpaste — it creates a sufficient stream of global winners such as two-in-one shampoo and compact detergents to fuel returns to shareholders in the 81st percentile.

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Superior long-term growth in shareholder value is feasible only with creation of 10X value for customers through strategic or product innovation, sharing part of the value with customers and capturing part of the value in attractive profitability. Rapid top-line growth is fueled by replicating the 10X value down one growth superhighway: either market share growth, geographic expansion, acquisition or pursuit of an adjacent market segment. In contrast, successful creation of superior long-term shareholder value requires top management to challenge itself to superior performance, focus, differentiate the management processes of the 10X value business unit and lead. Ultimately, 10X value creation is strategically liberating: virtually all companies, even large corporations in mature industries, have the potential of creating superior long-term returns for their shareholders. SB

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