

BINUS

BUSINESS SCHOOL

People. Innovation. Excellence.

PROFITABLE GROWTH

**Knowledge Sharing Session
PT Holcim Indonesia Tbk
4 August 2010
By Dr. Ir. Boto Simatupang**

Breaking News!!!!

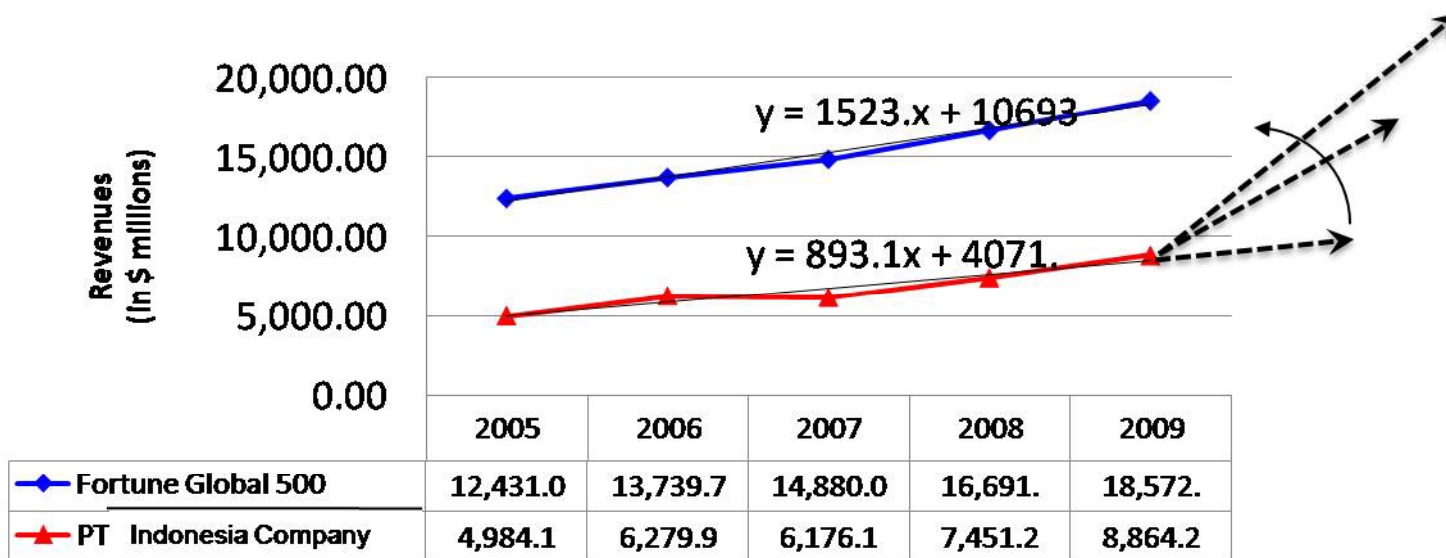
- **Of the original Forbes 100 companies, in 1917, only 13 have survived independently to the present day** (Foster & Kaplan as in McKinsey Quarterly, 2006)
 - **Survey of 6,772 companies over 25 years:**
 - **Only 5% of these companies remained in the superior stratum for 10 years or more**
 - **Fewer than 0.5% of these companies stayed in the top stratum for more than 20 years**
 - **Only three companies - American Home Products, Eli Lilly and 3M, or 0.04% of the whole - made it to the 50-year mark**
- (Wiggins & Ruefli as in McKinsey Quarterly, 2006)

Breaking News!!!!

- **A survey of nearly 6,000 large public companies in North America, Western Europe & Japan over a 15-year period from 1990 to 2004 showed:**
 - **Firms that sustained profitability without sustained growth: 20%**
 - **Firms that sustained growth without sustained profitability: 17 %**
 - **Firms that both sustained profitability and growth: 24%**
 - **Firms that neither sustained profitability nor growth: 39%**

(Source: Chakravarthy & Lorange, 2007)

Indonesian Company vs. Fortune 500



Source: BINUS Analysis, 2004-2009

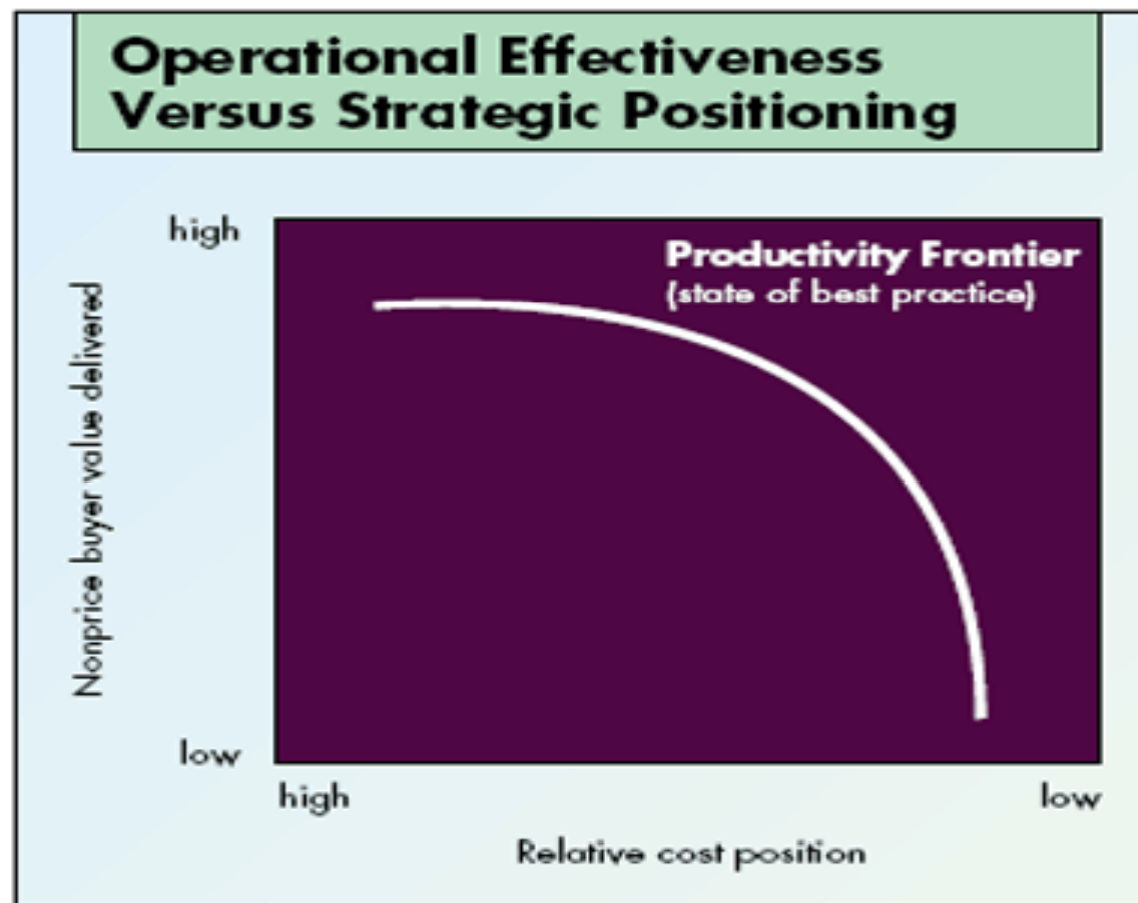


**"GROW or Die" is
the chief axiom of
U.S. Businessmen
(Time Magazine,
Monday, 28 June
1954)**

Profitable Growth Imperative

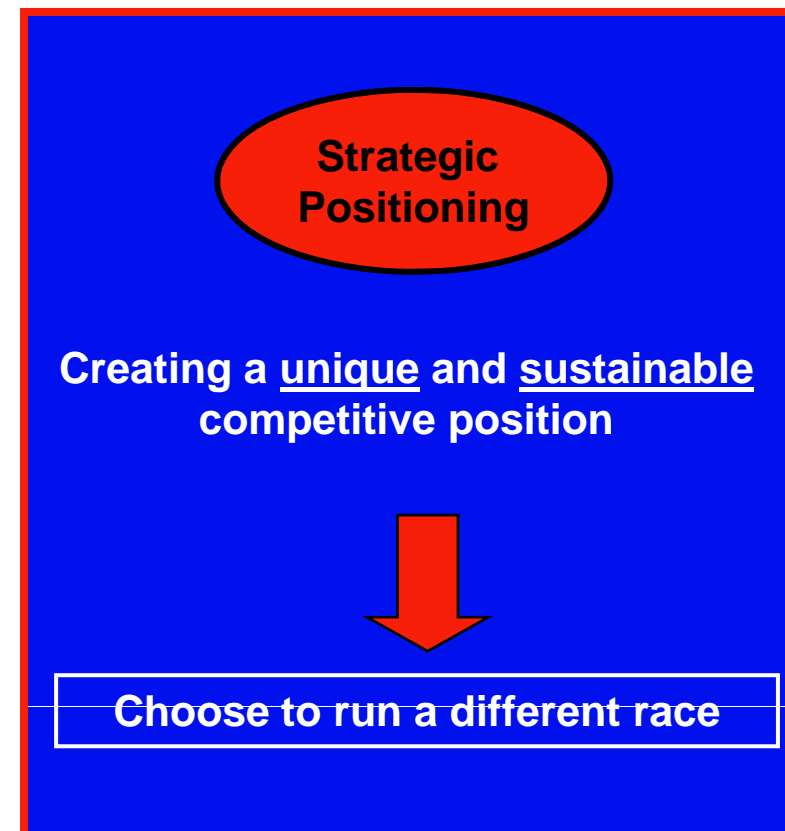
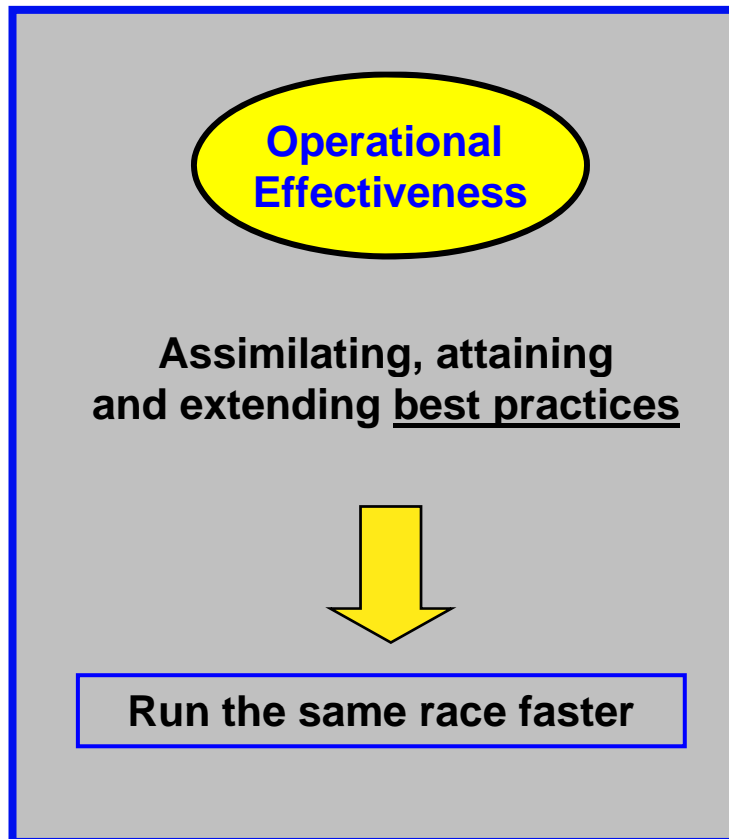
- **Driving profitable growth enhances value for the firm's shareholders.**
- **Companies need to pay at least as much attention to top-line growth as to increasing the bottom line.**
- **While cost improvements can drive earnings and shareholder value in the near term, companies that raise their total returns to shareholders (TRS) without achieving top-line growth have the worst long-term odds of survival.**

Operational Effectiveness - Important !!! But Not Sufficient !!!!!



Source: Porter, 1996

Firms Need to Run in Two Different Races



Source: Porter, 1996

Determinants of Superior Performance

- ***“It takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that”***

(Red Queen in Alice in the Wonderland)

The Growth Challenge

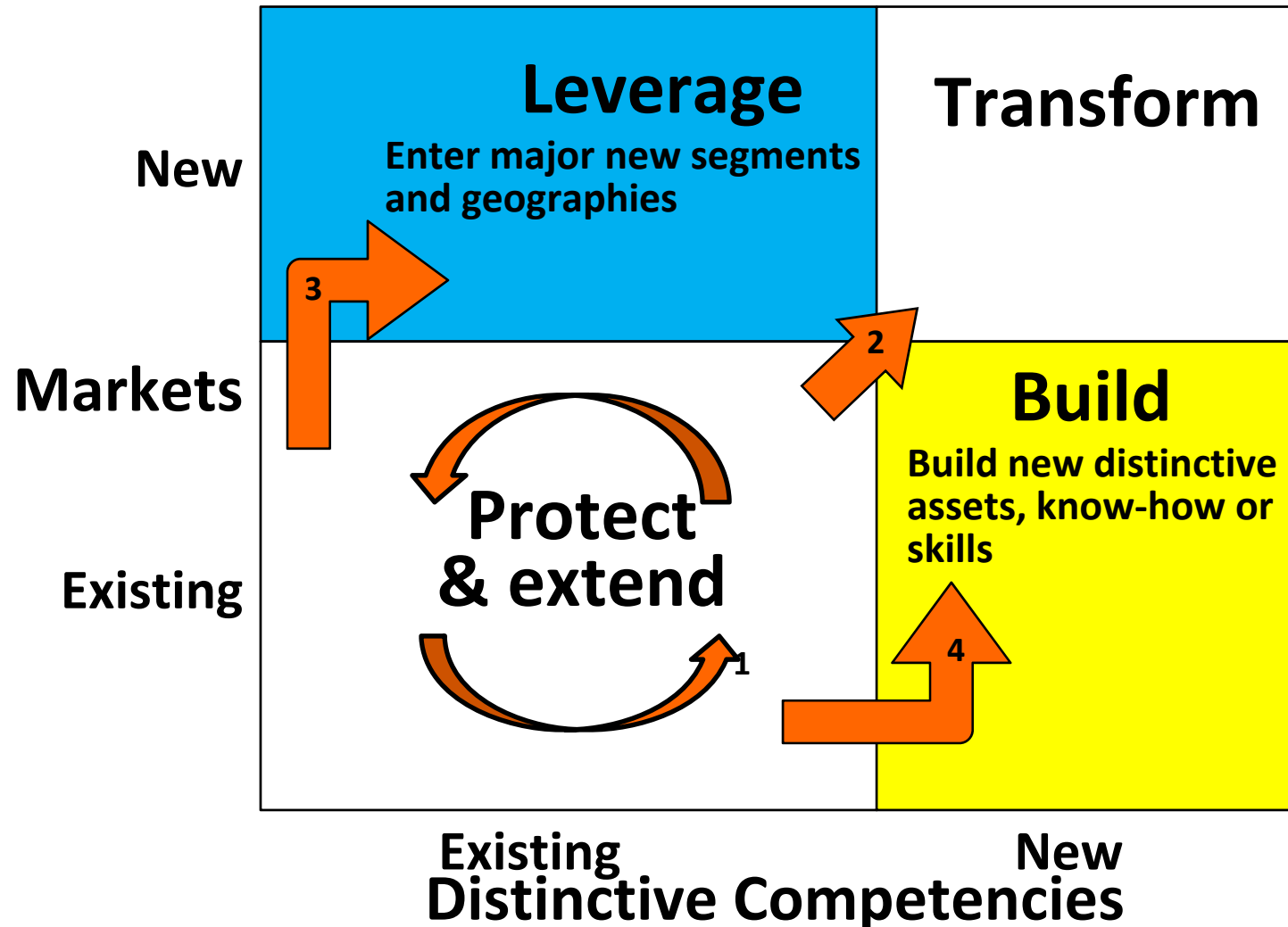
- **At the median annual revenue level of today's Fortune 100 - about \$30 billion - a corporation would in effect have to create a \$2 billion company each year to sustain 6 percent top-line growth.**
- **PT Holcim Indonesia Tbk?**

What to do?

- **Protect and Extend the Core**
- **Transforming the Core**
- **Leveraging the Core**
- **Building the Core**

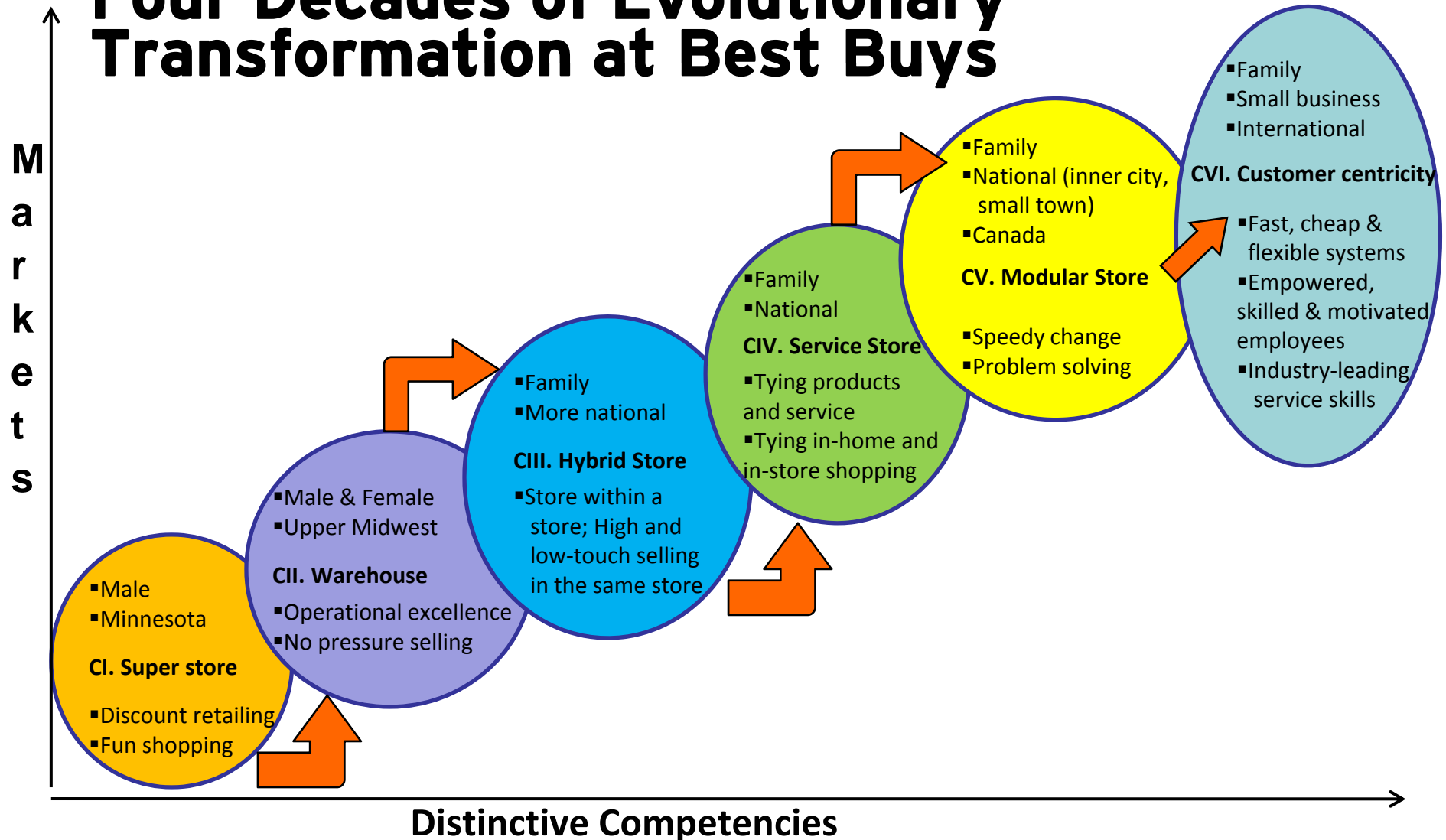
Source: Chakravarthy & Lorange, 2007

Renewal Strategies



Source:
Chakravarthy &
Lorange, 2007

Four Decades of Evolutionary Transformation at Best Buys



The Innovation Stack

Management Innovation

Strategic Innovation/BMI

Product/Service Innovation

Operational Innovation

Source: Hamel & Breen, 2007

Business Model Innovation (BMI)

- **Business model innovation has a strategic role in finding and driving breakthrough growth opportunities.**
- **Business model innovation is one of the most successful innovation of our time that break from company or industry norms in meaningful and perhaps even radical ways, such as:**
 - **Serving unmet or unsatisfied customer groups**
 - **Providing new or different benefits**
 - **Delivering and/or extracting value in an unconventional fashion**
 - **Go beyond pure product or technology innovation**

The Facts on Business Model Innovation



The combination of product innovation and business model innovation put Apple at the center of a market approximately 30 times larger than its original market (Source: The Boston Consulting Group (BCG), 2009)



Low-fare US discount and regional airlines grew from a blip on the radar screen to 55 percent of the market value of all carriers (Source: Johnson, 2010)



In retail, discounter like Target, Walmart, and Amazon that entered the market with innovative business models by 2007 accounted for 76 percent of the total industry market capitalization, having seized more than \$300 billion of value (Source: Johnson, 2010)

The Facts on Business Model Innovation

- **More than half of the twenty-six companies founded since 1984 that have entered the Fortune 500 between 1997 and 2007 did so through business model innovation** (Source: Johnson, 2010)
- **A 2008 IBM survey found that nearly all of more than eleven hundred corporate CEOs polled reported the need to adapt their business models; more than two-thirds said that extensive changes were required** (Source: Johnson, 2010)
- **Business model innovators earned an average premium that was more than four times greater than enjoyed by product or process innovators** (Source: The Boston Consulting Group, 2009)
- **Despite the above, no more than 10 percent of innovation investments at global companies are currently focused on developing new business models** (Source: Johnson, 2010)

The Tata Nano's Business Model

	Low-cost Indian Car Manufacturer	Tata Motor's Nano
Customer Value Proposition	Attractive, small automobile within my price range (Rs 2lakhs, or US \$4,000)	Get my family off the scooter for Rs 1 lakh (or US \$2,000)
Profit Formula	High volumes at low margins; high margins in after-sales service; low direct costs	High volumes at razor thin margins; partially lower overhead costs; and radically reduced direct costs
Key Resources and Processes	<ul style="list-style-type: none"> • Low-cost production capabilities • Inexpensive parts outsourcing • Cost-reduction strategies • Dispersed service network with skilled labor and capabilities for obtaining replacements parts and repair 	<ul style="list-style-type: none"> • Patents on component inventions • Long-term, high-volume supplier contracts • Radically redesigned sourcing, manufacturing, and distribution processes

(Source: Johnson, 2010)

CASE STUDY:

C & D

AT

P & G

- ***“Our business is pretty simple. The consumer is our boss. We have to win two moments of truth day in and day out. The first, at the store shelf. The second, occurs when they use our products. We have to win both moments of truth millions of times a day in more than 180 countries worldwide.”***
- ***At P & G we often ask, “Who is your WHO?”***

(A.G. Lafley - Chairman and CEO of Procter & Gamble)

Pringles Prints



Connect and Develop at Procter & Gamble

(Source: Houston and Sakkab, 2006)

- **Finding good ideas and bringing them in to enhance and capitalize internal capabilities (technology, marketing, distribution, etc)**
- **Launched a new line of Pringles potato crisps in 2004 with trivia questions, animal facts, jokes printed on each crisp**
- **They were immediate hits**
- **From 2 years to less than a year from concept to launch**
- **Technology brief defined the problems → circulate throughout global networks → find a small bakery in Bologna, Italy**
- **From R&D (innovating from within) to C&D/Connect and Develop**
- **Incremental changes: acquisitions, alliances, licensing, selective outsourcing, skunk works, improving collaboration between marketing and R&D, tightening go-to-market criteria, strengthening product portfolio management**

Connect and Develop at Procter & Gamble

(Source: Larry Houston and Nabil Sakkab. 2006. *Harvard Business Review*)

- More than 35% of P&G new products in market have elements originated from external (about 15% in 2000)
- 45% of the initiatives in product development portfolio were discovered externally
- R&D productivity has increased by nearly 60%
- Innovation success rate has more than doubled
- Cost of innovation has fallen
- R&D investment as a percentage of sales is down from 4.8% in 2000 to 3.4%
- Last 2 years launched more than 100 new products with some execution aspect from external
- 5 years after 2000 have doubled share price and a portfolio of 22 billion-dollar brands

Conclusion

“The real voyage of discovery lies not in seeking new landscapes but in seeing with new eyes”

- Marcel Proust

(10 July 1871 - 18 November 1922 was a French novelist, critic and essayist best known for his monumental *A la recherche du temps perdu - In Search of Lost Time*; earlier translated as *Remembrance of Things Past*. It was published in seven parts between 1913 and 1927)