

PROFIT FROM THE CORE

Growth Strategy In An Era Of Turbulence

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The Web site for this book is at <http://www.profitfromthecore.com>.

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MAIN IDEA

How do you grow a business profitably in a sustainable manner?

To answer this question, a 10-year study was carried out. The growth strategies of more than 2,000 technology, service and product companies were analyzed to determine whether or not they had actually managed to add long-term value. From this study, several common themes emerged:

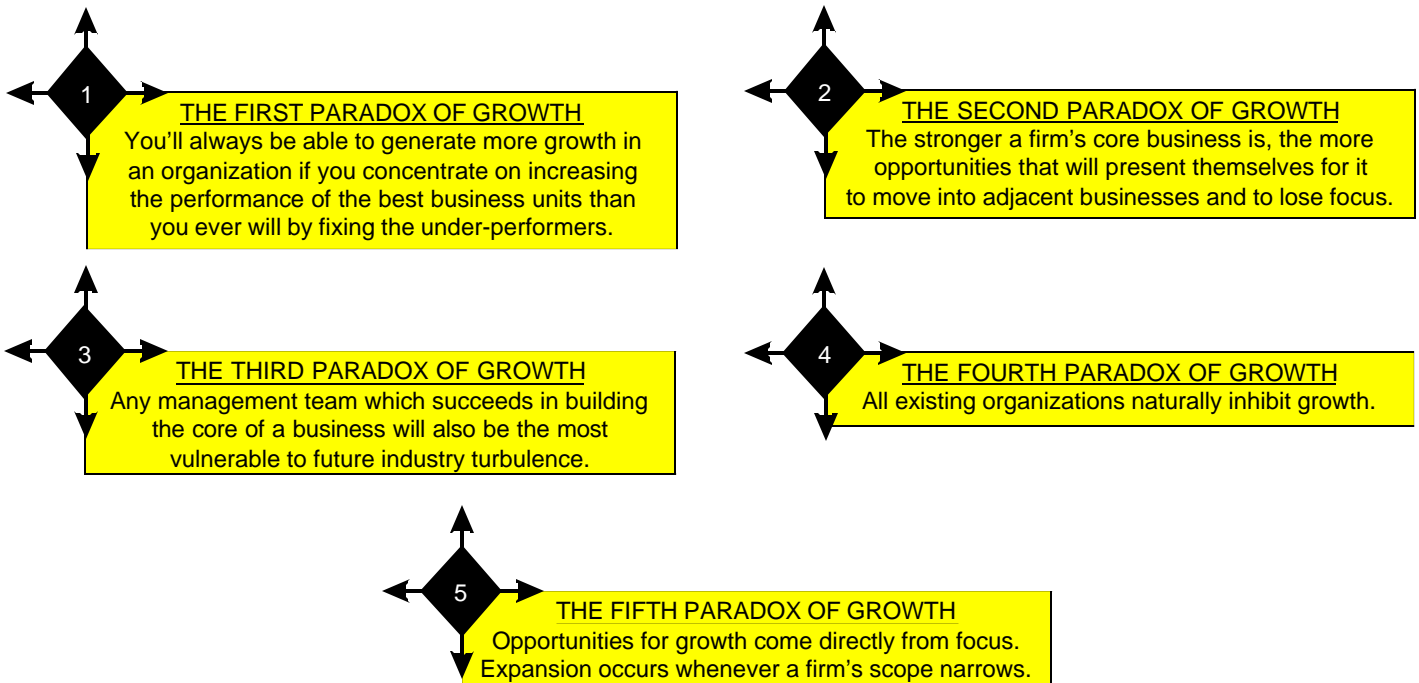
- While every company plans to grow its profits steadily, very few ever actually achieve that feat.
- The companies that do grow are always those that build unique strengths in a tightly focused core business, and avoid distractions.
- Most management teams underestimate the profit potential of their core business, which usually has unexploited potential.
- The most successful companies grow by moving into adjacencies that reinforce their core business rather than what's "hot".
- The hardest management decisions are usually whether to invest more in the core or invest in adjacencies.
- As a result of industry turbulence, most market leaders need to redefine their businesses when they are the most successful.
- Achieving growth always demands change, which is difficult because every organization naturally protects the status quo.

In total, this analysis showed that companies which focus on their core business grow profits and revenues faster and more reliably than those firms which abandon their core business and seek out the "greener pastures" of whatever is hot in the marketplace. Or, put differently, diversification is vastly overrated. The companies which achieve sustained profitable growth are those which have retained their focus on a well-defined core business and found new ways to build market power over time. The widely discussed ideal of entering an emerging new market early and then growing with it simply fails to work out in the real world most of the time.

This study showed the organizations that grow:

1. Consistently find new ways to exploit the full profit potential of their existing core business.
2. Expand systematically into business adjacencies – logical adjoining business areas which actually strengthen the core.
3. Periodically and preemptively redefine their core business whenever industry turbulence demands it.

Therefore, corporate growth in an era of industry turbulence is reasonably counterintuitive. The companies that do the best don't try and enter new markets. Instead, they concentrate on doing more of what they are already doing well. They only enter into new markets if those markets are closely aligned with what they already do. And when the urge grows too strong to look elsewhere for growth opportunities, they narrow their focus and build their core competencies. Therein lies the most likely path to success.



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