



The strategic principles of repeatability

How nonnegotiables fuel growth

By James Allen and Chris Zook

James Allen and Chris Zook are partners at Bain & Company and co-leaders of Bain's Strategy practice.

Copyright © 2012 Bain & Company, Inc. All rights reserved.
Content: Global Editorial
Layout: Global Design

How can a company sustain profitable growth?

It's no easy feat. As a benchmark, consider an annual growth rate in revenue and earnings of 5.5%. Most companies say they expect to attain that level or better—at least that's what their strategic plans call for.¹ But a Bain & Company study of more than 2,000 companies indicates that only about one in 10 actually achieves that relatively modest goal over a 10-year period while earning its cost of capital. In other words, nearly 90% of companies fail to achieve that growth objective.

No company can attain its growth goals without a great strategy. Fortunately, the five pillars of growth are by now well understood:

- The first is a *strongly defined and well-differentiated core business*, brought to its full potential and leading in its market. Look closely at the most successful one-tenth of companies, the ones we call sustained value creators, or SVCs. About 95% of SVCs are leaders in their core business.
- The second pillar is *leadership economics*. Leaders have the opportunity to outperform followers by a factor of two, as measured by return on capital employed.
- The third pillar: *developing passionate advocates among your customers*. Passionate advocates love doing business with you. They buy more from you, and they sing your praises to friends and colleagues. Sustained value creators, on average, earn twice as much customer advocacy as competitors.
- The fourth is *disciplined expansion into adjacent markets*. As companies spread out into new regions, new products and new businesses, the odds of success decline with distance from the core. Disciplined expansion—adding only one new element at a time—doubles the likelihood of winning.
- And the last is what we have come to call a *repeatable model*—a method of applying a company's core assets and greatest strengths to new contexts, thereby generating further growth. About three-fourths of the SVCs have developed this kind of repeatability.

Recently, we dug deeper into these repeatable models so others could learn from their remarkable success. We found three structural principles that form their foundation.

One is a well-differentiated set of frontline activities that reflect the company's strategic core and translate it into action (see "A strong, well-differentiated core," page 2). A company's core can never be theoretical. It has to show up every day in what frontline employees do to support the customer and in the activities that enable and support those employees. A company's leaders should be able to identify and measure these activities objectively. They should be able to demonstrate exactly where, why and by how much the front line outperforms competitors.

As an example, consider the Vanguard Group, now the largest mutual fund company in the United States. Vanguard's core business is serving long-term investors, largely through index funds that track the performance of a particular segment of the market. The company has put in place a set of routines and activities designed to minimize costs—expense ratios are 18% of the industry average—and to provide a high level of customer service. As a result of this differentiation, its redemption levels or churn rates are only 28% of the industry average. Vanguard has been able to expand into more and more segments of the market through this repeatable model.

Another principle underlying the Great Repeatable ModelsSM is regular, systematic feedback from customers, from key operations and from frontline employees (see "Systems for closed-loop learning," page 4). The steady flow of information allows a company to adapt its model to changes in technology and the larger environment.

This is a critical element because repeatable models are subject to entropy: They can decay over time. They require constant nurturing, refreshing and retuning, and the most successful companies develop processes and mechanisms to ensure that they maintain their adaptability. LEGO, for example, collects Net Promoter[®] scores at every customer touchpoint and for every major product category. It distributes the scores throughout

A strong, well-differentiated core

Successful companies typically differentiate themselves from competitors through superior cost economics (Vanguard, Wal-Mart), unique product features (Apple's iPad) or a leading position in a network or economic system (Vodafone, Microsoft).

But to really understand a Great Repeatable Model'sSM differentiation, you have to ask two questions:

- How do the differentiations reinforce one another to define a repeatable business model? Singapore Airlines provides exceptional service yet has one of the lowest cost structures among its direct competitors. These two interlocking forms of differentiation propel the company's success.
- What are the assets and capabilities at the heart of the differentiation? Answering this question requires drilling down into the heart of the company's model. If the advantage is in unit costs, for instance, where exactly do the advantages show up on the P&L, and how defensible are they? If the advantage is speed to market, what are the processes that are superior to those of competitors?

Differentiation and growth. The power of a repeatable model's differentiation lies in its ability to foster sustained growth over time. Some companies, such as Vanguard or IKEA, have grown by offering new products, targeting more (and more precise) customer segments and adding services, all while maintaining their fundamental focus. Others, such as NIKE or the commodities trading company Olam International, have grown by entering new markets with an adapted version of their core model. And some multicore businesses, such as United Technologies (UTC) or Procter & Gamble (P&G), have developed a coherent management system that they apply to every business they are in (see figure on opposite page).

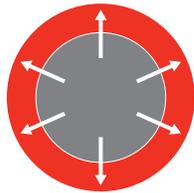
the company every month and follows up individually with dissatisfied customers. LEGO's Kids Inner Circle is a community of 5,000 children that gives it quick feedback on new products. The company's "quick poll" system allows it to test customer reaction to themes, features and stories. Meanwhile, some 135 company-sponsored shows have drawn 2.6 million visitors and spawned user groups with 65,000 members. LEGO thus gathers a flood of information from its customers—information that it can use every day in its operations and investment decisions.

The principle we will focus on in this article might be thought of as "soft," but it is key to the entire concept of a repeatable model. It is everything that helps and

encourages frontline employees (and everyone else in the organization) to define the strategy for themselves and to buy into it. It is the shared culture, shared dreams and shared assumptions that define "what it means to work here." As we listen to management teams around the world describe their aspirations and challenges, this theme—actually living your strategy day in and day out—comes to the fore again and again. Most people inside companies now realize that strategy is less about the new, new thing than it is about executing on the goals you set. But effective execution happens only when people in the organization understand the strategy, believe in it and incorporate it into what they do every day.

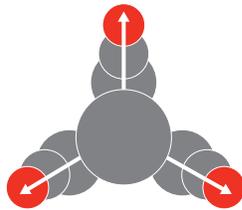
A strong repeatable management model allows companies to add value to acquisitions. Danaher, for instance, has grown steadily by acquiring industrial companies in a variety of niche markets and instituting a unique business system based on the principles of lean manufacturing. Danaher's data shows a consistent ability to improve the margins of acquisitions, often by as much as 5% to 10% of revenues. Danaher itself is one of the best-performing multicore companies in the world.

Three levels of repeatable models



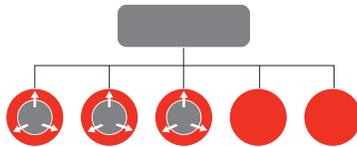
Individual business driving core growth

Examples: Vanguard, IKEA, Tetra Pak



Businesses moving into adjacencies by modifying their model

Examples: Olam, NIKE, Apple



Multicore business managing a portfolio

Examples: Danaher, UTC, P&G

Source: Bain & Company

Plenty of examples come to mind. Talk to anyone at IKEA, the furniture retailer that has outgrown its market by a factor of 2.5 over 25 years, and they will mention the same strategic priorities: self-assembly, design to price point, self-help store layout and a well-managed supply chain. These are the central elements of IKEA's differentiated core, and employees know that they are what makes IKEA unique. Talk to anyone at Tetra Pak, the food-packaging company, and they understand that Tetra Pak packaging must save more than it costs over the life of the product. We call such principles and priorities the nonnegotiables because they are at the heart of a company's repeatable model. They inform every decision that frontline employees make.

Companies create their repeatable models in a variety of ways, but nonnegotiables are nearly always central. They certainly play a major role in one of the most remarkable growth trajectories we have ever seen: a large global company in a mature consumer goods category that (1) grows and makes money at an astonishing rate; (2) continues to outstrip and outperform its competitors; and (3) is now poised to win in one of the world's most important markets. And while many outsiders attribute the company's success to the "hard" capabilities of cost reduction and attention to margins, its transformation was made possible by what the company calls the "desire to dream."

Systems for closed-loop learning

Technologies and consumer preferences change. Rivals attack successful businesses. That's why even companies with Great Repeatable ModelsSM must continually adapt to new competitive environments. Otherwise they run the risk of winding up like Kodak or Kmart, also-rans in a race that suddenly sped up.

The key to adaptability is continual learning. Companies have three main sources of input:

Learning from the core customer. This is the most common feedback loop in Great Repeatable Models—direct, immediate customer feedback, often through the use of the Net Promoter[®] system. Even companies that have traditionally marketed through third parties have found ways to communicate directly with customers. The Swedish truck manufacturer Scania, for example, has decided that feedback from truck drivers through dealers is slow and inadequate, and has now established methods to talk directly and continually to truck drivers. Scania pledges to address easy-to-fix problems in 10 days, and it captures a wide range of feedback for longer-term product modification. (Learn more about closed-loop systems at www.netpromotersystem.com).

Learning from key operations. A second important set of feedback loops are systems that monitor and highlight key operating parameters, enabling managers both to react to problems and to share learning across the system. The idea of the experience curve, defining the relatively predictable relationship between repeated experiences and unit cost, shows the power of this learning. As the figure on the opposite page shows, IKEA has reduced the cost of its famous Billy bookcase by an astonishing 76% (corrected for inflation) through innovations in materials, fasteners and construction details.

Learning from frontline employees. This is the one case where we offer an example of practices from our own firm, Bain & Company. For the past nine years in a row, Bain has been voted the best con-

The growth of AB InBev

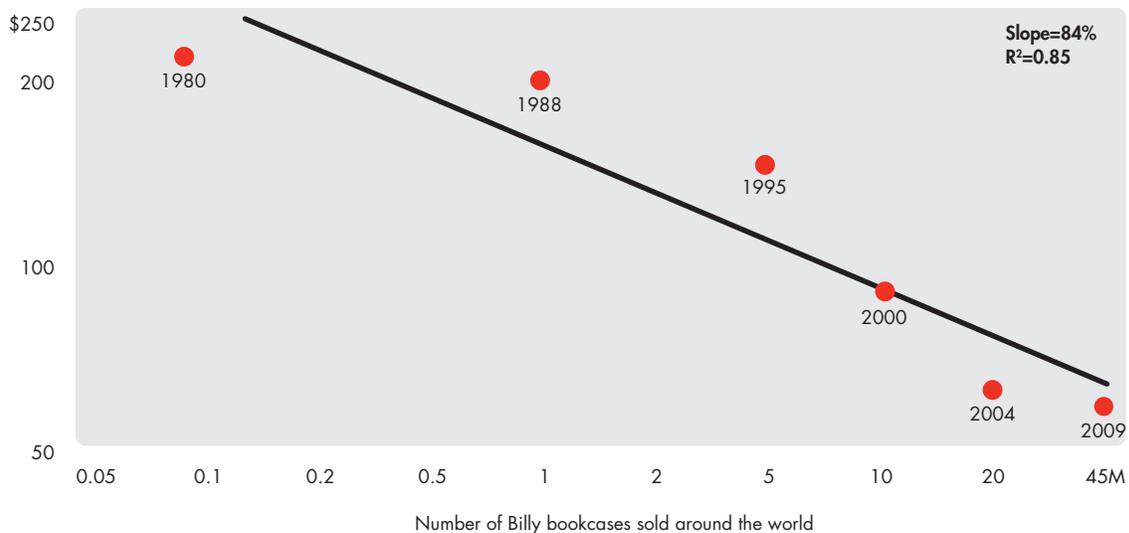
The company now known as Anheuser-Busch InBev (AB InBev) is the world's largest brewer, with \$39 billion in 2011 revenues. Its operations span the globe. It sells more than 200 brands of beer, including such flagships as Budweiser, Beck's and Stella Artois. The company has a complex family tree because it is the descendant of numerous mergers and acquisitions. In this article, however, we want to trace one particular lineage—the source of the nonnegotiables that helped make AB InBev what it is today.

This part of the story begins in 1989, when a group of investors led by Marcel Telles purchased Brahma, then the No. 2 brand of beer in Brazil. Telles and his team built up the brand, took over the No. 1 slot and in 1999 combined with its chief competitor to form AmBev. Expanding rapidly throughout South America, AmBev soon became the third-largest brewer in the world. In 2004, the European beer company Interbrew, itself a product of several mergers, acquired a majority stake in AmBev, creating InBev. In 2008 InBev bought Anheuser-Busch, the leading US brewer. The result was AB InBev.

sulting firm to work for, thanks partly to its systems for internal feedback and response. For example, after every project or phase of a major project, the firm conducts a case team survey, which is shared with the project team and is a critical factor in a manager's performance appraisal. The survey asks questions such as whether there was "yield loss" in the project, whether respondents felt that the project added enough value to the client and why. This is valuable data for the firm as it tries to understand and replicate its success.

Experience curve of IKEA Billy bookcase

Real price of Billy bookcase
(in 2009 constant USD)



Note: Logarithmic scale used on both horizontal and vertical axes; average of prices in Europe and North America
Source: Company website; literature search; Euromonitor; EIU

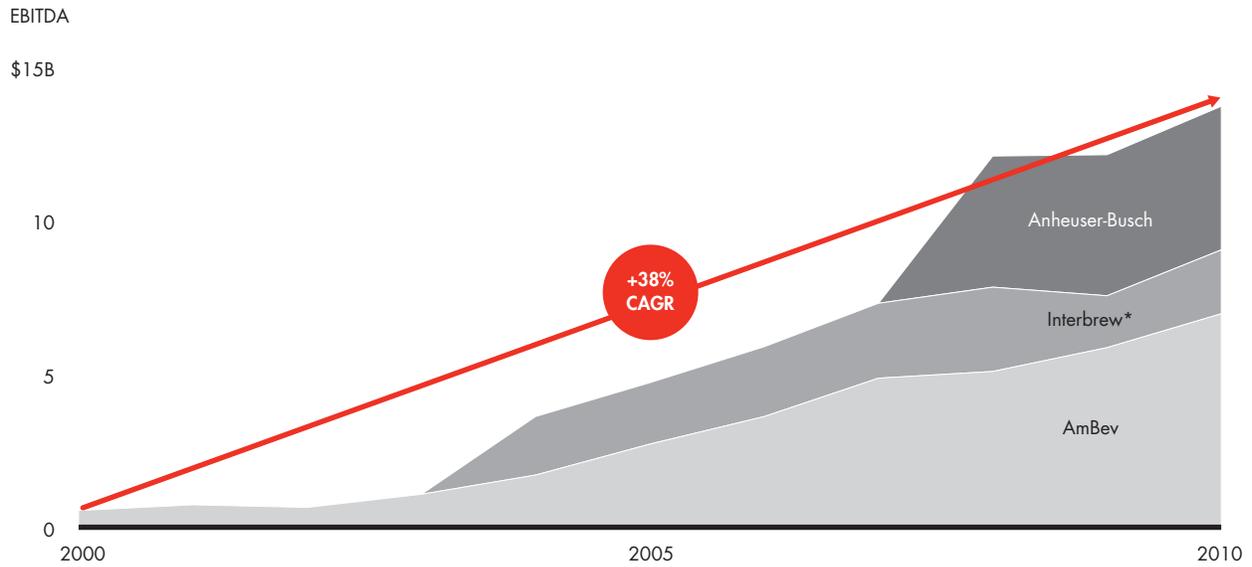
The acquisitions, coupled with organic growth, fueled a rapid rise in revenue for this combination of companies. What's most interesting about their performance, however, is their meteoric increase in profits: Earnings before interest, taxes, depreciation and amortization (EBITDA) rose at a compound annual growth rate of 38% between 2000 and 2010 (see Figure 1). A prime reason for the growth in profitability appears when you unpack the contribution of each party to the mergers. The Brazilian company AmBev, already at 20% EBITDA in 2000, increased its margins to a whopping 36% in 2003. Then Interbrew bought the company, and the effect was like yeast in bread dough: The EBITDA of

InBev, the new company, rose from 21% in 2003 to 37% in 2007. When InBev acquired Anheuser-Busch, the combination had a similar effect. Anheuser's EBITDA in 2007, prior to its acquisition, was 23%. By 2010 the EBITDA of the combined company, AB InBev, had risen to 38%.

Many outside observers attribute the growth in profitability to a single factor: ruthless cost cutting. A 2009 article in the *Wall Street Journal*, for example, was headlined "Unease Brewing at Anheuser as New Owners Slash Costs." The opening paragraph described construction crews arriving at Anheuser-Busch's St. Louis

The strategic principles of repeatability

Figure 7: Repeatable model fueled 38% annual profit growth



*Interbrew acquired a majority stake in AmBev to create InBev in 2004; StarBev figures are excluded from 2009 onward
 Note: EBITDA figures may vary from company statements due to harmonization and pro forma calculations
 Sources: OneSource; CapitalIQ; annual reports; Bain analysis

headquarters to demolish the plush executive suites, replacing them with a “sea of desks, where executives and others now work a few feet apart.” The *St. Louis Post-Dispatch* echoed the theme: “The corporate culture of the old A-B [Anheuser-Busch]—tradition-bound, perfectionist, focused more on dominating the beer market than making money—has given way to an aggressive austerity” under AB InBev.

The reality is more complex, and it goes back to the culture created by Marcel Telles and his team at AmBev years earlier. “The growth story of AmBev actually began with 10 years of cost cutting and cultural rebuilding in the core business,” Telles explained in 2003.

“This takes time. We [eventually] instilled a culture...of being intensely dissatisfied with anything less than full potential and results. We reinforced this with all sorts of systems, like our management room with a huge board that has on it every senior executive’s business objectives, including mine, and progress against those objectives

for all to see.... In 1989, AmBev had productivity of 1,200 hectoliters per employee. Today it has productivity of 8,200 hectoliters per employee, an increase of nearly seven times, and the improvements have come from virtually everywhere.”

AmBev, in short, developed a culture of productivity and performance that allowed it to take on virtually any competitor. Its cost structure was so low that it could move into new markets outside Brazil, install its operating system, offer lower prices than the incumbents in that country and still realize higher profit margins.

Three repeatable systems—known internally as WCCP (world-class customer processes), VPO (Voyager Plant Optimization) and ZBB (zero-based budget process)—lie at the heart of this culture. Each brewery, for example, is (or is not) certified as VPO compliant, given a score and tracked in detail on a transparent and comparable set of metrics that apply to every brewery in the company. Under ZBB, each of 16 “packages” of nonmanufacturing costs has a global owner at the management

level, as well as regional owners. All are charged with setting benchmark targets every year, identifying best practices to become more cost-effective and communicating their performance throughout the company. These practices create and reinforce a set of daily routines relating to continuing improvement in costs and productivity. The company's statement of principles spells out the two nonnegotiables involved. One is, "We manage our costs tightly." The other is, "We are never completely satisfied with our results."

Careful cost management, however, is just one element of the culture that began at AmBev and spread throughout InBev and then AB InBev. "Great companies are formed by great people," says Carlos Brito, the Brazilian-born executive who became CEO of InBev in 2005 and now heads AB InBev. "What distinguishes you from an average company is the kind of people you can attract, retain, develop, train, promote. Behind a brand that's doing well in the market, you have people who understand customers, have insights [and] execute according to those insights." To attract and keep that top talent, AB InBev creates an environment that fosters everyday routines of close collaboration and quick decision making. The reason for that "sea of desks where executives and others now work a few feet apart"? "It gets people connected in two-minute meetings, in five-minute meetings," Brito told an audience at Stanford University's Graduate School of Business. "Mediocre people would love to be behind closed doors, playing games and stuff." AB InBev discourages corporate perks such as company cars, and even its top executives fly commercial. But it rewards people generously through its incentive compensation system—as long as they achieve results.

AB InBev has published the 10 nonnegotiable principles that guide its culture, and it ensures that people throughout the company know, understand and talk about those principles. Tellingly, only one focuses on costs. The others emphasize the importance of shared dreams, of hiring great people, of thinking like owners and taking personal responsibility for results. It's a culture of *winning*—of being on a winning team. "I was asked, 'How do you build a high-performance culture?'" Brito said at Stanford. "We learned that you have a dream, that you announce it to the organization and that it is

powerful enough that you inspire people, motivate them and give them a sense of purpose." Recently, even outsiders have begun to appreciate the intense focus that lies behind AB InBev's success. The company "is intolerant of mediocrity and inefficiency," Credit Suisse analyst Carlos Laboy told the *St. Louis Post-Dispatch*. "These guys are very, very focused and very, very sharp. There is a wealth-creation agenda for the controlling shareholders of the organization."

As AB InBev's Miguel Patricio explains, "If you're a restaurant owner and a new restaurant opens across the street serving the same food, how do you feel? You feel like someone is putting your livelihood at risk, threatening you, threatening your family. It's personal, because the restaurant is your dream. But if you are a waiter and a new restaurant opens across the street, how do you feel? At best, indifferent. Actually, there's now competition for your services." Many companies inadvertently create waiters, he says, but "we work tirelessly to create restaurant owners."

At AB InBev, in short, there is no gap between the executive suite and the front line. Everyone understands the strategy, and the company's daily routines reinforce it. So it is at nearly every great company we have studied, including IKEA, LEGO, Tetra Pak and Vanguard. The strategic priorities permeate the organization. They become second nature. At every company, frontline managers and employees make hundreds of decisions a day. At great organizations like these, they do so with the company's strategy uppermost in their minds.

AB InBev takes on China

In 2000, the beer industry in China included nearly 400 brewers, each with relatively low market share. The top four accounted for only 19% of sales. The industry then began a process of rapid consolidation, and by 2010 the top four held 57% of the market. One of those top four was AB InBev, which trailed SABMiller by 2 percentage points of share.

For Patricio—AB InBev's zone president for the Asia-Pacific region since January 2008—the dream is not only to win in China's beer market, but also to be the

The strategic principles of repeatability

best company in the country. A Portuguese native raised in Brazil, Patricio is convinced that the company's culture fits closely with the region. "I like to say that AB InBev is the most Chinese of western companies because, like the Chinese, we believe in dreams. This seems odd for a company that is all about tough bottom-line numbers, but it makes total sense. AB InBev dreams. Our dream is to be 'the best beer company in a better world.' You have to explain your ambition and your personal dream. The dream must be simple and easy to understand, but also stunningly ambitious."

The key to realizing the dream, adds Patricio, is to identify gaps in performance and then close them. "My dream is three to five years out. Then I translate that into yearly deliverables and work with others on how to achieve them. Every part of the organization has a 'dream team' working on what the dream for that area needs to be.... The dreams are about raising the bar, going after bold goals, but it all needs to be measurable. In the supply chain, it might be about costs, but also how to improve water efficiency." What distinguishes AB InBev, he adds, is its nonnegotiable focus on actually achieving all those goals—a legacy of Marcel Telles's AmBev. Indeed, volumes have increased almost 20 times since 2003, reaching nearly 60 Mhl in 2011, while EBITDA has increased approximately 60 times over the same period, reaching nearly \$350 million.

"For us, numbers and targets mean something. When we set them, we go after them. All my targets are on a wall, seen by everyone, and progress is logged. We have to find people that care massively about targets and achieving them."

"This company culture appears very suited for China right now, which is one of the most target-driven meritocracies on earth," Patricio concludes. "Everyone dreams. Everyone wants to achieve."

Leadership and Great Repeatable Models

Creating and sustaining a Great Repeatable Model such as AB InBev's requires leaders like Marcel Telles, Carlos Brito and Miguel Patricio—individuals whose leadership style matches the three principles that underlie these models. Indeed, the latest thinking on great leadership hews closely to these principles.

One characteristic of great leaders, nearly everyone agrees, is authenticity. The leader believes what he or she says and finds ways to deliver real value to a customer. Similarly, a company with a Great Repeatable Model knows precisely what its core business is and translates it into measurable activities. It understands where and why it outperforms competitors, and it verifies that understanding with data.

A second characteristic of great leaders is usually called empathy or emotional intelligence—the ability to be deeply in touch with frontline employees and to inspire them at an emotional level. Support for every Great Repeatable Model permeates and infuses the entire organization. That's why leaders such as AB InBev's discuss numbers only after they talk about dreams. They understand that inspiration is more powerful than purely rational agreement.

A third characteristic of great leaders is humility and self-awareness. They know that they don't know everything, and they are ready to change when the situation requires it. Great Repeatable Models also learn and adapt, just as their leaders do.

Future articles in this series will dig deeper into the characteristics of these models and of the people who lead them. And they will describe some of the many other companies that, like AB InBev, are transforming business. 

1 On average, global 2,000 companies intend to outgrow their markets by a factor of two. Since global GDP growth averages just more than 2.5%, that translates to a growth target of roughly 5.5%.

Great Repeatable ModelsSM is a service mark of Bain & Company, Inc.

Net Promoter[®] and NPS[®] are registered trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

Shared Ambition, True Results

Bain & Company is the management consulting firm that the world's business leaders come to when they want results.

Bain advises clients on strategy, operations, technology, organization, private equity and mergers and acquisitions. We develop practical, customized insights that clients act on and transfer skills that make change stick. Founded in 1973, Bain has 47 offices in 30 countries, and our deep expertise and client roster cross every industry and economic sector. Our clients have outperformed the stock market 4 to 1.

What sets us apart

We believe a consulting firm should be more than an adviser. So we put ourselves in our clients' shoes, selling outcomes, not projects. We align our incentives with our clients by linking our fees to their results and collaborate to unlock the full potential of their business. Our Results DeliverySM process builds our clients' capabilities, and our True North values mean we do the right thing for our clients, people and communities—always.



For more information, please visit www.bain.com

AMSTERDAM • ATLANTA • BANGKOK • BEIJING • BOSTON • BRUSSELS • BUENOS AIRES • CHICAGO • COPENHAGEN • DALLAS • DUBAI • DÜSSELDORF • FRANKFURT
HELSINKI • HONG KONG • HOUSTON • ISTANBUL • JOHANNESBURG • KUALA LUMPUR • KYIV • LONDON • LOS ANGELES • MADRID • MELBOURNE • MEXICO CITY
MILAN • MOSCOW • MUMBAI • MUNICH • NEW DELHI • NEW YORK • OSLO • PALO ALTO • PARIS • PERTH • RIO DE JANEIRO • ROME • SAN FRANCISCO • SÃO PAULO
SEOUL • SHANGHAI • SINGAPORE • STOCKHOLM • SYDNEY • TOKYO • TORONTO • ZÜRICH