



## Unstoppable

Finding Hidden Assets to Renew the Core and Fuel Profitable Growth

by Chris Zook

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208 pages

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### Take-Aways

- Over the next decade, more than one-third of businesses will encounter a “crisis of the core” where the current growth model has reached a natural limit.
- The best way companies can renew their core is to discover hidden assets on which the strategic renewal and new sources of growth can be built.
- Most strategies follow a pattern of “focus-expand-redefine.” It is critical to know where you are in the cycle.
- One of the most important clues to future potential is where market profit pools have formed, and where they are shifting (rather than market size or gross revenues alone).
- Three types of hidden assets – underutilized customer assets, undervalued growth platforms and unexploited capabilities – are the basis for most strategic renewals.
- Customers who request new products and services may be a warning of attacks on your core business.
- Know your capabilities and how they create value for your customers.
- A planned, systematic process can improve the odds of finding your next wave of profitable growth.
- The most important starting place is a deep understanding of the core and of the root causes of profitability and competitive differentiation in the core customers.
- Be fanatical: Focus on and exploit your core business.

### Rating (10 is best)

Overall

**8**

Applicability

**8**

Innovation

**8**

Style

**7**

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## Relevance

### What You Will Learn

In this Abstract, you will learn: 1) What hidden assets are and why they are more valuable than you realize; 2) How to find your hidden assets; 3) How your customers can help you understand what you should be doing; and 4) Why understanding your company's core is the key to your redefinition process.

### Recommendation

This is the concluding volume in Chris Zook's trilogy on the business core. The previous two books focused on supporting, exploiting and expanding your current core, whereas this book shows what you can do when your current core falters. Zook points out the high risks of defending your core until your company dies, or of jumping to the next new thing and getting it wrong. Then he shows you how to find and exploit your hidden assets. He uses many examples to illustrate his points in a compelling way. The approach is action-oriented and he provides many good questions to ask, lists to use in working things through, and some useful charts and graphs (but not too many). *getAbstract* recommends this book if you are thinking of taking on such a project: It will whet your appetite and motivate your team for what you are going to do. However, before you undertake something this complex and risky, you may want to enlist somebody like Zook who has the expertise to help you.

## Abstract

"My goal is to provide some benchmarks and tools that executives can use when it begins to dawn on them that their company's core strategy and competitive advantage of the past may no longer be enough for the future."

"The starting place in each of the three phases of the focus-expand-redefine cycle of business growth is to make sure that you understand and are profiting from your core. Do you? Are you?"

### Regaining Market Momentum

Some businesses find success and continued growth, and others fail. This has always been true, but what is different today is the crushing rate of change. Successful business models can expire suddenly without any warning. Company lifespans have shortened (down to about 11 years) and CEOs stay in their jobs, on average, less than five years (down from eight a decade ago). Managers who are unprepared to make changes using the right tools and methods leave their companies woefully unprepared for survival in the modern marketplace.

The goal is to become the superior remaining competitor as the industry shifts and changes around you. You can take a number of approaches to this: You can stay with your existing model, but rethink how you execute it. Or you can try to transform your business to compete in a new market. Many businesses abandoned profitable models during the dot-com bubble to pursue the mirage of extraordinary market capitalization. Others hunkered down to stay with their existing models. However, neither approach will succeed if your bottom-line income dries up.

Finding a new wave of profitable growth requires three assessments, all of which emanate from deep understanding of your core and the assets it contains that can be seen in a new light. These are market attractiveness (focus on profit pools), ability to win (focus on differentiation and your hidden core assets) and ability to implement.

### Find Hidden Assets

A smart tactic is to transform your core business by finding hidden and underused assets in your current processes, methods and model. You may have valuable business

“Some of the worst odds, less than 10% success, come from doggedly defending the status quo when your markets have turned turbulent.”

“Companies that get into trouble or lurch into big-bang moves often realize, too late, that they did not follow a methodical process nor build their strategies on facts and consensus.”

“The worst tragedy of all is to take the destructive path or to give up, when a clear, value-creating alternative exists through a new strategy built on hidden assets.”

“It is possible for management teams to bounce like ping-pong balls from one topic or issue to another, never digging in and understanding their core and what it means.”

platforms (overlooked business acquired in a merger, a series of orphaned products or services that could become a business in themselves), unexploited assets (knowledge about your customers, the trust of your customers and possible subsegments of your customer base) and company capabilities (distribution, logistics, design expertise or research and development).

Be methodical in your evaluation. Don't dive into change out of desperation or a sudden enthusiasm. Follow these seven steps before making a decision:

1. Look at the near-term turbulence in your industry.
2. Analyze your core business and get an accurate assessment of its current health.
3. Build a list of possible options and pare that down to the most viable.
4. Dive deeply into your organization to find all your hidden and underused assets.
5. Consider the options that are most relevant to utilizing these assets and refine your list. (Keep recycling steps 3, 4 and 5 until you have the strongest list you can get.)
6. Generate criteria for evaluating your list of options, then go through it and make your selection.
7. Commit to the favored option and put it into action using the full energy of your team.

### **A Sustainable Growth Cycle**

When a business hits a rough patch, management must determine if the problem is a temporary hiccup or a symptom of something more pervasive. Even when the situation is serious, the decision to transform your business has to be carefully considered and executed with great care. Use the focus-expand-redefine cycle to determine the position of your business. Always know where you are in this cycle:

- **Focus** – Understand the boundaries of your core business, your differentiation and your costs. Exploit your core fully and invest in ways to discourage your competition from attacking it.
- **Expand** – Build your existing strengths, move into closely related business segments, expand your existing core (without transforming it) and develop your business model into a repeatable formula.
- **Redefine** – Create a platform from which to launch this transformation, understand the market “profit pools” you are seeking, differentiate your business according to the posttransformation model, and assess your capacity to provide the investment required and to execute the new model.

### **Diagnosing Your Core Business**

When you re-examine your core business model, ask these questions about the various parts of the company and its place in the market:

- **Your target customers** – Has their profitability changed? Are you gaining new customers? How well do you retain them? How much of their budget for your product category do you capture?
- **Your differentiation** – How do you define and measure the differences between you and your competition? Where are you on the list of low-cost producers of your product or service? Does your differentiation matter more or less than it once did?
- **The profit pool in your industry** – What is the real size of the profits available? What are the shifts in the profit centers (in location and size)? How much does it cost you to make a profit?

“A capability is the ability to get something done, to accomplish a highly specific task, in a repeatable fashion. Capabilities are the building blocks of the value chains of business.”

“When you gain greater comprehension of underutilized assets, you gain a toolkit and access to new ideas that expand the range of practical strategic options.”

“Failure to understand segmentation is a form of failure to understand your customers. It can pass unnoticed, a missed opportunity, but it can be much more costly.”

“Shrink-to-grow strategies are not an end in themselves, but they are a useful tactic to pave the way for redefinition. We find that these moves have a very high success rate.”

- Your capabilities – Do you have a current inventory of your capabilities? What are your capability gaps versus those of your competitors? How do the gaps measure against your future requirements?
- Your organization’s capacity for change – Is your workforce loyal or is turnover high? Is your process aligned with your objectives? How motivated are your people to undertake change?

### Unused Value

A survey by Bain & Company found that a third of those *Fortune* 500 companies that made an important shift in their strategic direction used a secondary asset as the basis for the change. The previously hidden asset enabled the redefinition to take place.

When you look for hidden platforms, pay close attention to opportunities similar to your current business. These “adjacencies” might include expanding into a nearby geographical area or finding a new method of distribution. You might be able to turn an internal service and support unit into an external business, especially if you can capitalize on your company’s existing knowledge and skills. Can you generate new business by using good products that have been pushed aside, orphaned or overlooked? A number of indicators can show that you have valuable underused platforms. Look for:

1. Customer requests for new services, products and service areas.
2. Unexpected profits or growth from a product line you aren’t actively developing.
3. A new or growing locus of profits where you can construct a winning platform.
4. Small leadership positions, where you might be able to build the market.
5. Secondary activities that you could use as primary business opportunities. If you are the best in the world at something, exploit that.

Examine the connections between your hidden assets and your current core (the more tenuous, the more difficult it will be to succeed). Think through the actual market potential and competitiveness of that platform. Consider your strategic options. Define the root causes of your profitability. Conceive of new opportunities that might not be obvious. What can you add to make a potential new platform more spectacular?

### What Your Customers Want

Without your customers, you have no business. In survey after survey, executives say that they want to understand their customers more completely. They express frustration at their inability to reach into the minds of their customers. But if you listen and watch carefully, your customers will tell you a great deal about what they want and expect from you. This is crucial during a period when you want to redefine your core business and make a transition to something new.

If you ask your customers what they would like you to sell, you will find that they will not only tell you; they will help you design the products. Ask them how well you are serving them, and not only will they tell you, they will also teach you how to serve all your customers better. Many companies simply do not detect the different market segments within their customer base. They try to serve all their customers the same way and miss valuable opportunities. If you measure customer loyalty and find a wide range of scores, you probably have segments you don’t see. If part of your long-time customer base starts deserting you, possibly someone else is doing more to serve a customer segment you do not understand well enough. Take a look at the way the top competitors

“Redefining the customer relationship at the heart of your business model is tantamount to tampering with the heart of your economics. But sometimes it must be done.”

“When you stop understanding your customers, you stop understanding your own business.”

in your market serve your customers. Has the model changed? Beware if others have shifted to new offerings and you have stayed with an old model.

Do you have a database of customers and their purchasing behavior? If you build it up carefully, you will accumulate knowledge that will reveal segments within your customer base. As you move to serve these segments, does customer behavior change as you expect? If not, ask your customers why. When you learn how to serve them more thoroughly, you can pull potential buyers away from your competition.

### **Your Capabilities**

Repeatedly exploit your company’s capabilities to create value for both your customer and your business. Studies show that most companies have 80 to 200 definable capabilities, even if management cannot articulate them. Of these, only a small number are core capabilities. The task of management is to understand its company’s capacity, and to determine which of its current noncore capabilities can become new core assets. Take time to define your value chain from beginning to end:

- Which steps do you think your customers value most?
- From which do you tap into the biggest profit pools?
- What capabilities could make pivotal parts of your value chain more valuable?
- Which of your capabilities are clearly differentiated from those of your competitors? What is the reason behind that differentiation?
- How is your profit dependent on your differentiation?
- What is your advantage over your competitors? Is it getting stronger or weaker?
- How does the future appear when you look into your crystal ball?

Don’t assume that your capabilities have to remain as they are now. You can invest in areas where increased capacity will give you a stronger competitive advantage or extend a current capability into another market. Consider how you might combine your existing capabilities with new assets or with each other to create something new and valuable.

### **Recapping the Journey**

To make your redefinition project work, first clearly identify your core customers. Determine not just who they are, but why they patronize your company and what they value. Make sure you completely understand your core business. Think about the adjacencies you can exploit by expanding your core rather than replacing it. If you get into trouble, first make sure you are satisfying your core customers. If you find your core is tapping out, look for clearly differentiated hidden assets that have real value for your customer. Exploit those assets to bring new, vibrant profit pools into play. Let go of your old suppositions about your company and see things with fresh eyes. Admit to yourself that this process may lead to a completely new organization with new profit centers and a fresh value chain. Use the focus-expand-redefine cycle of growth. Unearth your hidden assets and capabilities so you can use them as the seedbed of your renewal.

## **About the Author**

Chris Zook has a Ph.D. from Harvard and is a partner and co-head of the Global Strategy Practice at a major management consultancy. He is the author of *Profit from the Core* and *Beyond the Core*, which with *Unstoppable* form a trilogy of books on business growth, published by Harvard Business School Press.