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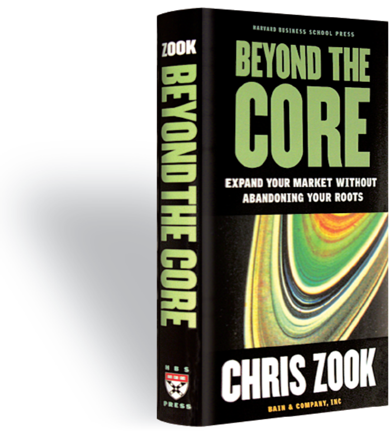

By Chris Zook

Expand Your Market Without Abandoning Your Roots

BEYOND THE CORE

THE SUMMARY IN BRIEF

Growth is not a choice: It's an imperative. But the risks are substantial. Only a quarter of all growth initiatives succeed, and three-quarters of the top business disasters of the past five years involved growth initiatives gone terribly wrong. Yet in spite of these dismal odds, some companies experience growth rates that are three times as high as the average over extended periods.

In his previous book, Profit from the Core*, strategy expert Chris Zook revealed how the most enduring growth performers succeeded by focusing and building around one or two well-defined, dominant cores — and how otherwise well-positioned firms sabotaged their growth by prematurely abandoning their core in pursuit of the next "hot" topic. Now, based on extensive research on the growth patterns of thousands of companies worldwide — including CEO interviews with the top 25 growth performers — Zook argues that in order to continue to grow, companies must eventually expand* beyond *the core.*

What You'll Learn In This Summary

Zook's research shows that the best companies fuel sustained growth through carefully planned "adjacency moves" — expansion into areas away from, but related to, the core business. *Beyond the Core* shows managers how to:

✓ Determine when and whether adjacencies make sense, depending on their company's competitive situation.

✓ Evaluate which growth initiatives to pursue, which to avoid, and which to abandon.

✓ Discover their firm's ideal "adjacency pattern": a repeatable formula that will enable quick execution of a series of successful growth moves.

✓ Decide what types of organizational structure, reporting relationships, and decision processes will support adjacency growth.

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BEYOND THE CORE

by Chris Zook

— THE *COMPLETE* SUMMARY

The Adjacency Challenge

If businesses have a primal urge, it is the need for profitable growth. That growth is the source of value creation to shareholders. *Beyond the Core* focuses on the question of how to expand a core business into adjacent areas in a way that is profitable and contributes to the strategic objective of expanding, defending or redefining the core business. The intention of this summary is to identify the most universal success factors and provide some ideas that management teams might find useful in improving the odds of an inherently risky undertaking.

Pushing out the boundaries of a core business is one of the most difficult management challenges. The typical odds of success are low. Managers have a built-in bias to underestimate and under-prepare for the ultimate complexity of these moves. Stock price swings and volatility are driven strongly by perceptions about adjacency expansion. And a large proportion of CEO departures occur in the presence of adjacency expansions gone wrong. Yet, in spite of these risks and penalties, the movement into adjacencies is the way that businesses ultimately find their next wave of profitable growth, without which they eventually stagnate and may even decline.

The Decision for Today's CEO

In my interviews of CEOs for this book, I started by asking what they believed were the key events in the development, shaping and growth trajectory of their company. Invariably, they listed key adjacency moves among the most defining events. Andy Taylor of Enterprise Rent-A-Car pointed to the decision to move from leasing cars into renting cars to dealerships, which triggered the business Enterprise has today. Tom Stemberg, founder and chairman of Staples, the lead office products retailer, talked about the movement from retail stores into distribution to small businesses, which spurred a sequence of adjacency moves that reshaped the company. Bob Norton of FTD florists emphasized how critical it was to make an adjacency move with the introduction of FTD.com, which allowed the company to link directly to customers to supplement its network of links between florists and defend its core against new competitors. These types of difficult, sometimes even agonizing growth moves punctuated the historical timelines in the minds of each CEO.

Wal-Mart Vs. Kmart

Consider the following example of how a growth strategy can go awry. In 2002, Wal-Mart became the largest company in the Fortune 500 and the most respected company in the United States, while Kmart drifted into bankruptcy. Both companies opened their first store in 1962. The history of Wal-Mart is one of methodical movement into adjacencies such as Sam's Club, electronics and Mexico, one by one. The history of Kmart is strewn with adjacency expansions gone wrong, from books (Walden) to sporting goods (Sports Authority) and even to a chain of department stores in Czechoslovakia. These failed adjacency moves sapped the strength of Kmart at exactly the time it was under a blistering attack to its core from one of the toughest competitors on earth.

The Promise of Growth

The promise of growth lies in methods that allow you to decide correctly, to tilt the odds in your favor, and to control the cost of failures when they inevitably occur. The examples, data and frameworks analyzed in *Beyond the Core* can help managers make and manage adjacen-

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The Adjacency Challenge

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cy decisions better.

But CEOs facing decisions about major investments in new growth initiatives and pushing out the boundaries of their core business into new territory are right to be concerned. When my team examined the top 25 business calamities (other than Internet companies) of the period from 1997 to 2002, we concluded that a failed strategy to grow into a new adjacency around a once-successful core business was a critical factor in 75 percent of these disasters.

Defining the Adjacency Strategy

Jack Welch, regarding where he looked for growth within GE, commented, "Expanding into adjacent businesses is the easiest way to grow. By challenging the organization to continually redefine their markets in a fashion that decreases their share opens their eyes to opportunities in adjacent markets."

Profitable growth is the wellspring of most value creating in business, and our focus for growth is on adjacency strategies. These strategies have three distinctive features:

1. **They are of significant size, or they can lead to a sequence of related adjacency moves that generate substantial growth.**
2. **They build on, indeed are bolted onto, a strong core business.** Thus, the adjacent area draws from the strengths of the core and at the same time may serve to reinforce or defend that core.
3. **Adjacency strategies are a journey into the unknown, the true extension of the core, a pushing out of the boundaries, a step-up in risk from typical forms of organic growth.**

Understand the Distance of a Growth Move From the Core

A recurring theme of successful adjacency growth is the importance of understanding the distance of a growth move from the core, one indicator of risk and movement into the unknown. We find that companies continually underestimate how much they do not understand, taking on risks and future obligations that are greater than they may have realized. A second theme of successful adjacency growth is the importance of understanding the true strength of the core to support new growth. Again, we find that companies sometimes overestimate the ability of their core business to support new growth.

Not surprisingly, we also found that more than 40 percent of non-retirement CEO turnover was in the presence of a major adjacency move that had gone wrong or that was highly controversial. Tom Stemberg of Staples notes, "Adjacency expansion is one of the two toughest decisions I faced as a CEO, the other being the creation and retention of the best possible management team."

Three Truths

The following three truths reappeared over and over in our study:

1. **Adjacency expansion is successful only if it is built around the strongest cores that have potential for leadership economics.**
2. **The best adjacency expansion strategies have a repeatable characteristic allowing the company to build an adjacency machine that continually creates more growth opportunities of a similar nature.**
3. **The best place to look for adjacency opportunities is in the strongest customers.** It is not in the search for hot markets, the next big deal, or in corporate studies. Your customers' potential adjacencies become your own potential adjacencies. ■

Successful Moves

What are successful adjacency moves, and why are they so important? An adjacency move could take many forms:

✓ *A shift from a flagging product business into services*, like the creation of IBM Global Services that rescued the company.

✓ *A foray into a major new customer and product arena building on the strengths of a core business*, like the repeatable adjacency formula that Nike developed to enter sports, from running to basketball to golf.

✓ *The leveraging of a core asset to create a totally new business*, like the creation of the Sabre reservation business by American Airlines.

✓ *Migration into new geographic adjacencies*, like the string of acquisitions by Vodafone, which transformed that company from a small, local wireless operator in the United Kingdom to the world leader in cellular phone services.

✓ *The addition of major new product lines to a distribution network*, like the Lloyds Bank strategy of applying retail techniques to its branch bank network, thereby adding products from mortgages to insurance, and reversing its position from one of the worst to one of the best performing banks in the world.

Playing the Odds

In looking at adjacency expansion moves, my research team and I combed the literature, and conducted our own independent analysis to understand as completely as possible the odds that major growth initiatives would truly drive a new source of sustained, profitable growth. We found, in our own data as well as in the secondary data, the success rate to be only about one in four. *Just 25 percent of investments in growth initiatives, most of them true adjacency expansions, created value and added to growth*.

The average success rate for new products is about 30 percent; for startups, below 10 percent; for joint ventures, about 20 percent; and for related acquisitions, about 30 percent. Studies of these initiatives span a wide range of methods and quality of data, but all show how hard it is to find and execute on new sources of growth in a company.

The unpredictability of the market can taint every adjacency move. It is important to focus on the controllable dimensions of adjacency expansion moves that can either lower the cost of failure or increase the odds of success.

The Pressures for Adjacency Moves

A somewhat surprising finding in this study of the search for profitable growth is the extent to which pressure to make adjacency moves exists across the gamut of business situations. It is felt by strong leaders who are gushing cash, and have opportunities hurtling at them from all directions, as well as by companies whose industries are in decline, or are falling hopelessly far behind competitively, and who wonder if they should make one final attempt to leap to a new lily pad.

Strong leaders in robust markets epitomize the epithet of Sun Tzu: “The more opportunities I seize, the more opportunities multiply before me.” Strong core market growth can actually heighten anxiety about finding future sources of profitable growth to maintain such exceptional momentum.

Strong leaders in weak core markets face a different dilemma. Organic expansion plus “close-in” adjacency moves might not be enough to satisfy their investors’ aspirations — or their own. However, one company’s adjacency is another company’s core.

Paradoxically, leadership businesses have the most to lose in adjacency expansions. Their valuable core franchises would be put at risk by major forays into the wrong adjacency or by premature abandonment of the core as an investment vehicle. And this risk is compounded by the abundance of temptation: The strongest businesses with cash to invest have opportunities brought to them every day. During discussions of adjacency expansion, Sir Christopher Gent, CEO of Vodafone, remarked that CEOs should be judged by the opportunities they decline as well as those they accept.

At the other end of the spectrum are businesses in weak competitive positions or collapsing core markets whose management would like nothing better than to jump to a better position, even a different business. However, the data show that few weak followers — in fact, only about 5 percent — materially change their positions over time. ■

Turbulence

Another situation in which adjacency expansion tempts management teams is when an industry is in turbulence. Turbulence can take a variety of forms. One form is when an entire sector that has been protected from the full pressure of competition suddenly has its protective shield removed. An example is the deregulation of public utilities in the United States in the 1990s, when company after company rushed into adjacencies ranging from telecommunications to global expansion to financial hedging.

A second form of turbulence is the rare, but stressful, situation of the *melting core*. A core melts down when the industry or market itself is in rapid structural decline. What happened to the typewriter industry with the advent of word processors is an example. The magnetic tape industry’s giving way to optical storage is another, and the photographic film industry’s encounter with digital imaging is a third. In each of these situations, companies like Imation (in storage) or Polaroid and Kodak (in photography) have faced strong pressure to find adjacent moves to serve as stepping stones to a more stable future.

For Additional Information on learning the six adjacency vectors, go to: http://my.summary.com

Repeatability for Successful Growth

Repeatability is the essence of mastery and control. “Relentless repeatability” was a phrase used by golf legend Ben Hogan to describe the driving force behind his professional success, and it is an apt term for one of the most critical elements in the growth of companies, the discovery of a repeatable formula to drive profitable growth.

Mastery at the customer level and control over competitive dynamics are the keys to earning profits in business. Focused companies that have a strong or dominant

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Repeatability for Successful Growth
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core and that hit on a repeatable formula for extending their strength to new arenas are the breeder reactors of business. About two-thirds of the most successful, sustained-growth companies studied in depth for this book have one or two powerful, repeatable formulas, "adjacency machines" that generate waves of new growth over time.

These singular moves, like atoms connecting to form molecules, can be combined into a series of interlocking moves. Sometimes there is an opportunity to make a series of similar single-adjacency moves, like Vodafone's serial acquisitions of local providers to build a global wireless network. Other times, there is an opportunity to create a sequence of moves of various types that truly redefine the core business.

Root Causes

Three critical factors, potentially the most important three root causes of sustained and profitable growth, coexisted in at least 18 of the 25 companies we studied. The results of our studies could be boiled down to these three elements:

1. Each company had a strong core that constituted a stable and suitable launching pad for a sequence of growth initiatives beyond the core.

2. These companies hit upon a repeatable formula for adjacency expansion that generated strong economic and competitive benefits in its repeatable application.

3. These companies' formulas were, 80 percent of the time, built around specific and deep insights about customer behavior that could be replicated in different products, segments or circumstances with high odds of success and profit.

Only about 15 percent of the adjacency formulas were based on clear scale economics of production in the build-out of a network. Fewer than 5 percent of the cases of repeatable adjacency expansions were situations of unique business models, or capabilities, that could be applied over and over to new competitive arenas.

The Competitive Advantage

Finding a repeatable method of moving into new adjacencies, one after the other, has several clear benefits, each of which contributes to competitive advantage:

- **Learning curve effects:** A repeatable model allows an organization to be built around it, creating an adjacency machine with its own processes that can move down a learning curve in repeated application.
- **Reduced complexity:** In our discussions of Procter & Gamble's ability to consistently outgrow its industry, CEO A.G. Lafley emphasized that "complexity is the bane of a large organization. It strangles growth. It strangles everything." Repeatability allows fewer organizational variations.
- **Speed:** Speed is essential to growth. Doubling the speed at which an adjacency succeeds has a material impact on the growth rate of a business that is constantly attacking new areas surrounding its core. Repeatability dramatically lowers cycle time relative to the practice of shifting gears from one area to another.
- **Strategic clarity:** Clarity of communication about the growth strategy affects investor and employer confidence. The ability to describe a repeatable approach, constantly adapted to a range of new conditions, has a powerful influence on investors and employees. STMicroelectronics CEO Pasquale Pistorio has repeatedly emphasized strategic clarity: "I now believe that any good strategy must fit on a single page, emphasize the clear competitive advantages, and show how that can be used over and over again."

Understand Details and Their Execution

- **Ability to "drill down":** For many businesses, the key to growth comes from a *drilling down*, that is, an understanding of the details of the business and the execution of them.

These benefits are the hallmarks of companies that are the most successful at expanding themselves through a repeatable method. Repeatability can create a sizable competitive barrier.

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Nike Vs. Reebok

A remarkable study in contrasts of repeatability versus non-repeatability is the story of the competitive battle between Nike and Reebok. In 1990, the two companies had uncannily identical financials. Nike's revenues were $2.3 billion; Reebok's were $2.2 billion. Nike's operating income was $481 million to Reebok's $300 million. Both companies were almost entirely focused on athletic shoes, with Nike focused more on performance athletes, while Reebok's focus was somewhat more diffuse. Both had well-known brands. By the end of a 10-year period, the companies' fortunes were quite different. Nike's market capitalization had increased by 380 percent while Reebok's had shrunk in half. Nike had a clear strategy apparent to all constituencies, consisting of a repeatable method it had developed and refined over the decade to attack one sport after another. Reebok's path was a mystery to those covering the company.

Repeatability for Successful Growth

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Mining Customer Insights for Repeatability

Throughout the CEO interviews we conducted, we constantly heard the refrain that not only does everything start with the customer, but also that the CEOs were constantly finding that their organizations did not really understand the customer's needs, behaviors, frustrations, categories and situations as well as the CEO thought they should. Furthermore, every time they invested the resources to get closer to the customer, they often found new sources of growth — sometimes organic growth in the core, occasionally a new vector of adjacency growth, and, sometimes, even the basis of a repeatable formula.

Pasquale Pistorio of STMicroelectronics agrees: "I insist that we keep total humility about customer knowledge. Almost all of our major new sources of growth have come because of this. When we have diverted to ideas not driven by the customer, like the ST personal computer chip or the PC graphics, we found we did not succeed, because we were not close enough to the customer and could not drive the speed of innovation fast enough without that intimate knowledge."

Throughout the case studies, more than three-quarters of the most successful companies had a repeatable formula, and three-quarters of those that did built the formula around insights related to customer behavior and customer segments. The key insights underpinning all these successful, customer-centric growth formulas originated from a relatively small number of ways to look at customers' needs.

The Primary Lenses

There are five primary lenses for looking at a core customer base in search of new forms of profitable growth. These lenses each uniquely focus on the following five dimensions:

1. Customer Economics and Profit Drivers: One of the most powerful ways to identify potential adjacency opportunities is through the detailed understanding of the cost and profit economics of key customers. Companies can create expertise in this capability by building organizational skills that allow them to understand the full economics of the customer's business drivers as completely as the customer does. A company may develop a deeper understanding of the customers' most vexing problems than the customers themselves have.

2. Customer Share of Total Spending ("share of wallet"): On average, share-of-wallet adjacencies — that is, the selling of highly related products to customers you know intimately — have the highest success rates among adjacency types. Building growth on proven and tested customer behaviors regarding multiple purchases is still one of the best strategies.

3. Customer Life Cycle of Events and Purchases: One way to identify the potential for share-of-wallet adjacencies is to look across the life cycle of the purchases of an individual customer, searching for linkages among purchases that create a chain of adjacency expansion opportunities. Rapid prototyping, testing the key behavioral assumptions rigorously, and then responding rapidly to proven success are key.

4. Customer Segmentation: Segmentation can create new opportunities either by identifying new geographic or customer segments to attack using the direct model, or by taking an existing segment and subdividing it to achieve greater customer focus.

5. Customer-Based Product Regimens: Some of the most difficult growth environments for business, like the world of consumer products inhabited by Procter & Gamble, may force companies to rise above their conditions and to push the boundaries of techniques to mine new adjacencies. P&G's ability to consistently find major new growth opportunities from deeper and deeper detailed customer knowledge holds lessons for all. Many of its approaches to turn its repeatable stream of customer insights into true moneymakers today involve open-market innovation, whereby a business unit fills in missing capabilities by looking outside its walls into other units in the company or by looking outside the company. ■

Evaluating Adjacency Moves

Adjacency moves are business journeys into the unknown. The most successful growth companies, like Dell, Vodafone, Lloyds TSB, P&G and Staples, insist on the most rigorous criteria for deciding what to pursue, and especially what not to pursue. While all the companies looked at a lot of data, each had a relatively short list of clear, agreed-upon criteria that the company determined were right for it.

Take, for example, Vodafone. To deal with the constant series of major forks in the road, Vodafone has honed a decision process that pays particular attention to three dimensions: the potential for leadership economics and market control in the new adjacencies, the robustness of the potential profit pool, and a clear sense of the relatedness of the adjacency to a strong existing core.

Deciding How to Decide

The average strong core business has typically 80 to 110 possible adjacent moves surrounding it at any one time. Perhaps the firm actually evaluates 15 to 20 of these per year. Deciding how to decide is crucial in order to avoid mere expediency, excessive complexity,

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Evaluating Adjacency Moves

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or excessive decisiveness. The best companies have honed their criteria and processes for adjacency decisions to a military precision. The most successful companies at adjacency expansion also have some of the most restrictive criteria.

One common attribute across most companies with the most evolved decision processes for growth is experience with periods of both strong success and disappointment. Another factor at play is the explicit recognition that rationality in human decision-making is inherently imperfect. The companies best able to pursue growth opportunities are aware of the need to impose rules and structure on their own decision-making process.

Three Success Factors

● **Success Factor One: The best adjacencies build on and reinforce the strongest cores.** Relatedness to a strong core is the most powerful and reliable engine of value creation by pushing out the boundaries of a business. Lord Ian McLaurin, chairman of Tesco, describes how his company's method evolved: "The key to our model was 'Keep it simple, stupid.' We knew we were a supermarket and only invested in things that we could prove our customers really wanted. The same list came up all the time, like petrol, coffee shops, greater freshness, or easy parking. So, we decided to invest all of our money in these areas in improving the model or extending it into new areas."

● **Success Factor Two: Drive adjacencies toward the most robust profit pools.** A profit pool is different from a market. A profit pool evaluation is designed to embody the size of the industry, its current and potential profit dollars, and the extent to which those earnings could cover the cost of capital for the leading players. Some industries, like the airline industry, have decade-long histories of not earning their cost of capital, with the exception of companies with highly specific ways to segment the market, lower their costs, and create profitability. The prism of profit pools is the way to view the fundamental attractiveness of a market, given its size, growth rate, economic structure (capacity conditions and competitive conditions), and customer alternatives.

● **Success Factor Three: Insist on the potential for leadership economics.** The decision to make a major investment to push out the boundaries of a core business into an adjacent area requires a clear view of the reinvestment and cash requirements in the future. If you do not have the potential to ever achieve economics equivalent to the leader, then you may be constantly out-invested or put in a position of having to match the leader's investment to achieve lower returns. The true power of leadership economics resides most often in the ability to generate higher margins through lower costs. Studies at Bain & Co. have found that 80 percent of the difference between a leader's profits and those of a more distant follower is due to unit cost levels.

When all three adjacency success factors hold at once, new, profitable growth usually is worth pursuing, given organizational capacity to execute.

Mapping the Profit Pool

In mapping out a profit pool, it is first necessary to decide on the definitions and boundaries of the relevant markets. These could be defined by geography, stage in the value chain, current owner, product, end user, time phase, channel, or distance from the relevant core business. In addition, it is important to think about what constitutes profit. Is it pure dollars, or is it dollars earning more than the cost of capital? Is it potential profit under a new economic model? Just asking these questions of a growth initiative can be quite clarifying. Once the definition has been decided on and information has been assembled, it is worth considering the full range of profit pool effects that come into play:

✓ **The direct profit pool entered by the adjacency move.**

✓ **The impact of the adjacency move back on potential profitability of the core business.**

✓ **The impact of the core business on the adjacency.**

✓ **The option values of the move in creating further opportunities.**

✓ **Profit pools of customers, suppliers or complementary products.**

Common Pitfalls in the Evaluation of Adjacencies

Several pitfalls in accurately evaluating growth opportunities were highlighted repeatedly in the CEO interviews and our other research. A more rigorous decision process can help a business executive avoid these and other common pitfalls:

- Mistaking a large market for a large profit pool.
- Failing to understand how tightly the profit pool is controlled by a competitor.
- Misunderstanding the root cause of market power, thereby defining leadership in the wrong way.
- Underestimating how today's competitive dynamics will shift tomorrow's profit pool.

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GE Capital

At GE Capital, the tremendous success of past acquisition-driven growth was becoming a less likely growth engine of the future, given the increased costs and scarcity of the right acquisition. The company recognized that it had unrealized potential in its core and embarked on a major program of training, tools and measurement systems that it called Find, Win, Keep (FWK) and later evolved to a program called Core Customer Connectivity (3C). The result was a booster rocket in its 25 operating units that fueled another wave of growth in the core. If you have a major, full-potential gap, consider a high-intensity initiative to bridge the gap, creating the platform for the next wave of adjacency expansion, rather than chipping away.

Evaluating Adjacency Moves

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- Not doing adequate homework on relative cost position across competitors, thereby underestimating the true economic strength of the leader.
- Falling prey to the tyranny of incremental economics and, in doing so, dismissing the importance of leadership economics in reinvestment.

Overarching these specific areas of potential failures of decision-making is what I term the *tyranny of apparent strategic rationale*. In certain situations, this creates an enormous pressure to act, even if the numbers do not add up. Untested assumptions about customer buying preferences are other sources of siren songs, which have led many companies into massive and costly adjacency moves that they have subsequently had to unravel. Assumptions about customer bundling or competitive mimicry can also be powerful enough that they compel management teams to forgo the usual analysis and concept testing. This has proved to be a dangerous route. ■

Executing Adjacency Moves

Most organizations inhibit growth. Why? They are often set up to protect the status quo, but growth is not about the status quo. Organizations tend to become more complex and more internally focused over time; each can stifle growth. The strongest core businesses have the muscle to retain their best people, as probably they often should. Yet the gravitational pull of the core can stem the flow of talent to new opportunities. The opposite response of creating such a magnetic pull in the new, "hot" adjacency that it depletes or distracts the core can be equally harmful. These natural tendencies of organizations need to be managed if a company is to achieve sustained, profitable growth.

CEO Insights

The CEOs interviewed for this book returned over and over to organizational factors that they believed had shaped success or failures in their experience:

Michael Dell says, "The unique structure of our organization makes it especially easy for us to move into new customer or product adjacencies. We have developed a formula for this that we apply over and over again, from reporting relationships to the transparency of our financial reports."

Tim Eller, CEO of Centex Homes, the major home builder with the best record of sustained, profitable growth, speaks of his company's organizational process: "Our new adjacencies always report to the CEO at the start in order to make sure that they get the proper care and feeding and to give us a chance to figure out the best long-term organizational solution. We spend enormous attention on the way that we later shift the business to become more tightly linked to the core, while trying to maintain enough autonomy.

Andy Taylor, CEO of Enterprise, also stresses the importance of organization: "We have spent a lot of time working on how to organize ourselves in ways that keep the adjacency tightly linked and controlled by the core, but do not stifle independent thinking. We start new businesses in our strongest three markets first. I attend all business updates on our learning in the new business. We believe that adjacencies must have the best and the brightest, and we have learned that if we do that, we can keep accountability like we do in the core business. We want the accountability to be no different than in the rest of the business."

Consider the fact that virtually all of the CEOs went out of their way to stress the organizational challenges of adjacency expansion.

Beyond the Core

Adjacency expansion is a specific method to achieve growth. It is different from market growth, from diversification, from venture capital, from cost and price cuts, from combining with your main competitor, and from programs to improve the loyalty of current customers. Yet, adjacency expansion is what CEOs today identify as the primary way they hope to achieve their next major wave of new growth. As we have seen, the potential is great to create value from well-executed moves that push out the boundaries of a strong core business. ■