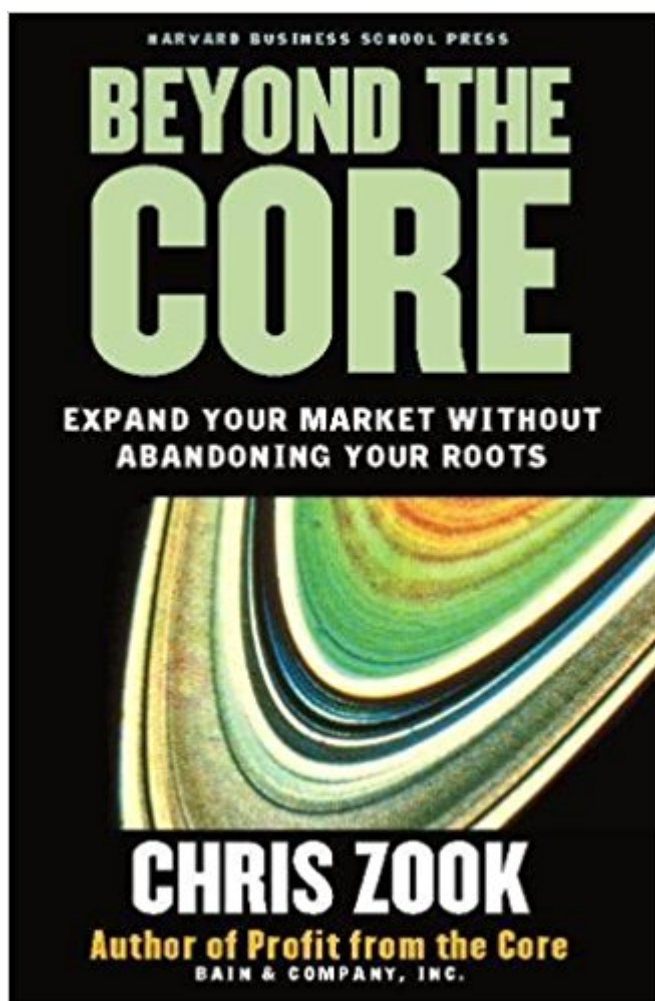




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# Beyond The Core: Expand Your Market Without Abandoning Your Roots



## Synopsis

All companies must grow to survive--but only one in five growth strategies succeeds. In *Profit from the Core*, strategy expert Chris Zook revealed how to grow profitably by focusing on and achieving full potential in the core business. But what happens when your core business provides insufficient new growth or even hits the wall? In *Beyond the Core*, Zook outlines an expansion strategy based on putting together combinations of adjacency moves into areas away from, but related to, the core business, such as new product lines or new channels of distribution. These sequences of moves carry less risk than diversification, yet they can create enormous competitive advantage, because they stem directly from what the company already knows and does best. Based on extensive research on the growth patterns of thousands of companies worldwide, including CEO interviews with 25 top performers in adjacency growth, *Beyond the Core* 1) identifies the adjacency pattern that most dramatically increases the odds of success: "relentless repeatability;" 2) offers a systematic approach for choosing among a range of possible adjacency moves; and 3) shows how to time adjacency moves during a variety of typical business situations. *Beyond the Core* shows how to find and leverage the best avenues for growth--without damaging the heart of the firm.

## Book Information

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## Customer Reviews

Chris Zook is a Director of Bain & Company and leads the company's Global Strategy Practice. He resides in Boston, Massachusetts.

Same for my review of Profit From The Core (Zane's previous book on the subject). A lot of interesting examples of strategic movements towards adjacency, but lacks frameworks, tools and theory behind them.

Focusing is my management strategy, I found good arguments to strengthen my vision. The book complete the serie of Chris Zook

Got it for a class but loved it anyway

This is a rather useless follow-up to *Profit from the Core: A Return to Growth in Turbulent Times*, which had a good description of the focus/niche strategy. The current book must have been written due to the success of the former book. It is an elaboration of a chapter on adjacencies in the earlier book, which are growth trajectories outside the core (think "core competencies"). The basic idea is that related diversification is good. This has been a stable finding in research for 50 years now. The current book does not add anything new. Even the examples are not that great as in the first book. Please give this book a pass and have a look at the author's first book instead.

Profitable growth is a major source of value creation for stockholders - as much as 50% of the value of many stocks is based on expansions around core businesses. It also provides the pull that attracts and retains the best people. However, only about 25% of all growth initiatives succeed, and 75% of the top business disasters of the past 5 years involved growth initiatives gone wrong. Zook tells readers that the most powerful long-term growth trajectories are composed of repeated sequences of small adjacency moves; in contrast, the occasional "big move" in search of growth seldom leads to sustained value creation. Adjacency could take the form of a shift from a flagging product business into services (eg. IBM Global Services), a foray into a major new customer or product (eg. Nike from running to baseball to golf), leveraging of core assets to a totally new business (eg. American Airlines' Sabre System), geographic adjacencies (eg. Wal-Mart). (Zook, however, omitted the reticence competitors have to use non-core products of their competitors - eg. AA's Sabre reservation system, or pizza parlors, etc. buying Pepsi from a conglomerate that also owned Pizza Hut.) UPS provides a good example of the serial pursuit of adjacencies - from local message delivery (1907) to local package delivery (1918), to regional package delivery, to common carrier (1950), to national network, to the addition of two-day air freight (1953), to next-day-air service via the purchase of a fleet of planes (1988), to global package delivery, to warehousing

parts and providing fast repairs, to tracking services (eg. new Ford cars), to freight. Nike provides another - running shoes in 1963, basketball in 1985, tennis in 1986, then baseball, football, etc. in the 1990s, and finally golf. Golf expanded from shoes, apparel, balls, and finally irons. But Zook's (Bain's) approach is not infallible - he gets tongue-tied trying to explain Dell's initial failure in store sales, followed by H-P's successes in using store sales to pass Dell. Then there's Zook's vague praise for Starbucks - prior to its loss of market share due to others emulating its product. Nonetheless, his suggested structure for evaluating possible adjacent moves (Are the customers, competitors, cost structure, and distribution channels the same? The greater the sum of the deviations the greater the risk.) makes sense and seems helpful. I also liked his simulation model approach - to outgrow a 3% growth market, a 6% growth over 5 years would require attacking 15 adjacencies with 5% potential to increase the total business and achieve lasting success in seven years. Nine percent growth requires 35 moves and 14 successes - a tall order. Speeding the process to require only 2 years allows 2 adjacent areas/year at a 40% success rate to create 5% growth.

If you aspire to be a CEO with dreams of expanding your company's business, or if your job involves advising your company management on M&A or expansion into adjacencies, you need to read this book. If you are already a CEO looking for insights into what makes up the core of your business strategy and how you might expand around that core while minimizing the risk to both the core and to the new venture, perhaps you should read the book and hire Zook as your consultant. *Beyond the Core* is written in an almost conversational style as Zook regales the reader with corporate histories of success and failure and comparisons of companies that started with similar baseline starting points. The different paths they took make intriguing reading, but this is not just some gossip story telling. Underlying Zook's analysis of the recounting and the conclusions he draws, is some heavy-duty empirical and statistical study. Here you will find tales of Wal-Mart/Kmart and Nike/Reebok as well as of Swissair, UPS, Loral, and the obligatory dragging-in of Enron. IBM, Dell, Muzak, Gillette, and more are in Zook's compass. The book explores how companies that move into businesses related to their core operations and adjacent to that core -- hence, "adjacencies" -- can and should make decisions as to whether there is really a synergistic relationship to the core and how to assess the likelihood of success: Is the core sound? Can it support the new venture? Will the new venture drain resources and capital? What is the prospect of reaching a leadership position in the target area? Is there a relentlessly repeatable approach to replicate success? Zook focuses on expansion into adjacencies in this book but is quick to recognize

that there are other growth strategies, the subject of future books, perhaps? This book is interesting not just for the sophisticated distillation of mounds of data that Zook provides, but also because of the insights into business strategy that he sprinkles throughout. It is a veritable checklist of the right questions that a CEO or advisor should ask not only before undertaking expansion but also in order to understand where things stand now. Zook's insights into how value is created for shareholders are intriguing. From the general observation that profitable growth is the wellspring of most value creation in business, he takes the reader to specific examples of how minor changes in the rate of growth or in the speed of execution, can make major changes in the rate of return. For those interested in investing in companies based on growth, a careful reading of Zook's work will provide insights for figuring out when companies are venturing too far outside their core competencies. He explains with aplomb how Muzak's attempt to use its network of transmitters and signal distribution to sell educational products and business updates was not an adjacency built on Muzak's expertise, the management of customized music. Rather, it erroneously used an incident of the core business, one easily replicated by competitors and in which Muzak had no particular expertise. It will be interesting to see how Zook will write in the future of IBM's expansion into consulting and Gillette's expansion into the battery business. He is positive on the adjacency moves by the management of those companies. For a business book, this one is fun and I think I'll read it again. For example, one might miss on the first pass, Zook's observation as to why most companies die or tumble into extended periods of value destruction. This is not an idle issue since virtually all the companies he studies had gone through such periods including IBM and Dell. The answer? Well, read it for yourself -- page 176.

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