

“The Growth Gamble” by Andrew Campbell & Robert Park,
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314 pages

“Any number of academic studies have demonstrated the odds of new business success are ... substantially longer than winning big in Las Vegas”. Still 90% of companies aim for growth rates more than twice that of the economy; they bet against the odds. Should not excess be returned to shareholders and not gambled away?

Disney bet millions it could build an Internet portal to rival Microsoft and failed. Over a twenty-year period, UK bank Nat West, despite creating two new businesses of significance (credit cards and treasury), lost hundreds of millions of pounds in failed acquisitions and new ventures.

“The Growth Gamble” focuses on how companies whose core is slowing down achieve growth by developing new businesses. Entrepreneurs can learn from the wide range of carefully calculated, multi-sourced advice applied to the likes of McDonalds and Intel.

Managerial assumptions that growth is necessary are challenged. The authors believe there are few opportunities for mature companies to create significant new business. It talks of a future “age of realism” with many companies living comfortably with low-growth business plans. The authors argue that the received wisdom - good managers can create growth businesses even if they are in low-growth markets - is dangerous. Growth for growths sake should be avoided unless circumstances are favourable.

How to recognise favourable circumstances? Campbell and Park took 3 years to develop and test “the most important chapter in the book”; the ‘new business traffic lights’ – “a powerful screening and strategic thinking technique that help identify the best opportunities”. They assert that in future strategic planning will be about defining both objectives and action plans. Strategies with a 90% failure rate will no longer be tolerated.

Much of the book is about the selection of new businesses, if any, your business should invest in and how to organise the search. Once found, companies are urged to assess the strategic business case of the new idea by applying 'traffic lights'. A red, yellow or green light is assigned to the size of value advantage, attractiveness of profit pool, quality of manager and impact on existing business. Any one green signal is enough to get the go ahead - as long as there are no reds. One red is enough to stop the project. Apparently managers have found it relatively easy to use this tool and around 90% of markets turn out to be yellow. One may ask oneself; why bother. The authors claim no major theoretical breakthrough, but assert that the 'traffic lights' screen out failures thereby saving time and money and helps managers arrive at a better judgment.

The authors suggest that the potential value advantage of the proposed new business should be quantified. Anything less than 50% should attract only a yellow light. To calculate the value advantage, take the unique value we bring, less the percentage of value we could trade through sale / license / joint venture, less the value our competitors bring, less the cost of learning. If the answer is significantly negative we should obey the 'stop' light. This test alone is likely to nip in the bud very many proposed new business ventures; maybe saving businesses hundreds of millions of pounds.

Whilst seeking out new business ideas readers are advised to continue to invest in the core business. The real cost of investing in new business maybe a distraction from the core rather than money lost from failed venture. There is plenty of good advice in this book, for example; don't be seduced by sexy markets, focus on markets where you have advantage rather than a market that is growing – think what special resources or competence can be brought to the game. Be humble about your skills, it is easy to underestimate those hard-to-see advantages of competitors. Remember learning costs are an unknown that upset many business plans. Are learning costs likely to be larger than any advantage? Leverage something you know, Disney may have lost out on Internet services but Disney Cruise Line, as an amusement park at sea, was successful. And finally don't be afraid to partner; Virgin seldom enters a new business without a strong partner.

This stylish book does not shortchange its intended readership. Senior managers and business development executives will find the 'pop' style definitions easy reading. (Readers are informed on avoiding failure by avoiding the Icarus, the Helen of Troy and the Hubris pitfalls). Indeed the concept of the 'new traffic lights' has a nice commercial ring! So as not to disappoint the expected consultants, academics and student readers; the 'new traffic lights' are compared to current theory. By including the cost of learning, 'new traffic lights' takes 'parenting theory' a step further (page 164) and is "more comprehensive than Christensen's 'disruptive technology' theory". All the usual strategic theories, five forces, Ashridge, Ansoff etc., are included and are applied to interesting case studies.

I thoroughly recommend this book to all entrepreneurs struggling with the concept that if you are not moving forward you are moving backwards. Valuable lessons may be learned; and comfort taken that big firms get it wrong more times than they get it right. In my opinion, big business needs to learn from the myriad of continually-profitable SMEs who get it right more times than they get it wrong. After all, whose pocket takes the hit if the gamble fails?

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