Taking by storm: a breakout strategy

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This article is based on research in *Breakout Strategy: Meeting the Challenge of Double-digit Growth*, by Sydney Finkelstein, Charles Harvey and Thomas Lawton (McGraw-Hill, New York, 2007).

Start-up companies all struggle with the challenge of how to manage growth and successfully take the business to the next level. How do you stabilize and consolidate and at the same time continue to shake up and expand your market? This dilemma is frequently advanced as the single biggest challenge for entrepreneurs and small business leaders. Putting it another way, how can you break out of a market or industry position where you are an underdog at best and an irrelevance at worst? How do you avoid the growth shackles of being an industry follower or the growth destruction of being rejected by customers? The answer can be found through pursuing a high growth strategy grounded on the notion of ''breakout''. Strategic breakout can occur in different circumstances and for various types of business – old and new, small and large, regional and global. We are concerned here with start-up enterprises, in which context breakout is associated with the rapid growth of a new industry or market arena or the emergence of a formidable new competitor rising to prominence – if not dominance – in an established industry. Breakouts typically are accompanied by sudden and dramatic increases in output and levels of activity. From a strategy perspective, what matters is the process by which enterprises like AirAsia or Netflix come from nowhere to achieve prominence, if not preeminence, in their chosen markets, usually in the space of a few years. Breakout strategy is ultimately about getting – and staying – on the fast track to business growth. For enterprising business leaders who want to raise a company from a subordinate to a more dominant market position, through meeting the challenge of double-digit growth, it is crucial both to pursue the optimal strategy and excel in its execution.

The breakout phenomenon

What is amazing about successful breakout companies is not the sophistication of their approach to strategy, but rather the brilliance with which they execute a simple strategy. Consider how the most successful companies lead with a straightforward, easy to understand value proposition – but one backed up with robust and finely-tuned business models. Successful retailers like Wal-Mart and Tesco illustrate the point perfectly, as do the best budget airlines like Southwest and Ryanair. The same is true of seemingly more complex organizations such as Microsoft and Fidelity, which, despite their global reach, embrace a focused approach to strategy making and implementation. At British retailer Tesco, the value proposition put to the customer is one of consistent good quality, excellent choice and product features, attractive facilities and high service standards at middling prices. There is no secret about the company positioning itself to serve the broad market space at the center of the food and household retailing industry, but its UK rivals have found it remarkably difficult to fight back. Starbucks likewise has shown similar resolution in repeating its outwardly simple formula in seemingly very different markets, and in return has been rewarded by exceptional growth and profitability. Rather than being constrained by overly sophisticated yet essentially wrong-headed strategies, companies such as these have found that the most successful approaches are often the simplest, adhering to the five realistic and comprehensible practices that are at the heart of winning breakout strategies:

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1. Create a workable vision by understanding needs and aspirations.
2. Face customers with a value proposition that covers all the important bases.
3. Align what you do with what the customer really wants.
4. Balance the people and process sides of business to deliver on your promises.
5. Liberate, through leadership, the energies and support of all key stakeholders.

We examine each of these essential breakout practices in turn.

Taking your market by storm

Pursuit of a breakout strategy is not confined to any particular type of company. However, the environmental and local conditions prevailing at point zero invariably have a major influence on the formation of strategy. In the purest breakout situation, when a new company has been formed to exploit a new product or service, the typical situation is one of capital scarcity. The founder generally has access to limited financial assets, but more positively there is likely to be some original intellectual property that the company seeks to exploit and there may be some supportive business and social relationships arising from the founder's previous activities. There is unlikely to be much realizable brand value or reputational capital other than when the founder is fortunate enough to have an exceptionally positive personal reputation. Many would-be high technology companies find themselves at this starting point. In the case of Cisco Systems, for example, the company was founded with modest financial capital to exploit an original technological breakthrough that enabled two or more computers to talk to one another in a primitive network. The founders had extensive personal relationships in a technology hungry university environment, which quickly attracted others to the vision of easy electronic communication, data transfer and resource sharing through ever expanding computer networks. What happened next is well known. The new technology found favor in the market. As market leader, Cisco could charge premium prices for its devices. Cash flow was strong from an early date. The cash was reinvested in more advances in technology, developed in-house or bought-in through acquisition. As sales grew, prestigious customers were brought on board and brand and reputational assets accumulated. Likewise, a series of technology partnerships and alliances created new possibilities for growth. A virtuous circle was established, taking the company from front room business to multinational enterprise in the space of a few years. The breakout of Cisco, like that of Microsoft, was remarkable for its rapidity and the brilliance of its strategic execution. It demonstrates that breakout is a dynamic process in which the asset base of the organization is forever growing and changing as one form of capital is continuously transformed into others. In this case, knowledge and social assets at first powered the creation of financial, organizational and brand assets, which in turn were transformed through a multitude of resource allocation decisions into further knowledge, organizational and reputational assets.

The Cisco case is illustrative of a specific form of breakout: the high growth start-up, where a recently formed company seemingly comes from nowhere to create an enterprise of significance within the space of a few years. This we call taking by storm and it is exemplified by the rise to prominence of companies like Cisco, US low-price airline jetBlue and electronic auction site eBay. Taking by storm is perhaps the purest form of breakout strategy. The intention is to win market share as quickly as possible through the launch of a value proposition so compelling that sales, revenues, and free cash flow all move upwards before existing and potential rivals wake up to the fact that something special is happening. Speed and surprise are of the essence. Before such companies truly register on the radar screens of competitors they have already bonded with first-wave customers, enticing them with new or better value offerings. If observed and taken seriously before gaining a foothold in the market, the competitive maneuverings of companies taking by storm might be severely constrained by the responses of established competitors. The breakout path taken is determined by the company's initial scope and industry standing. Start-up companies almost invariably are small, narrowly focused and in subordinate positions within their chosen industries and markets. In order to grow strong, in any emerging or established industry in which economies of scale and scope are significant, they must change the competitive landscape by offering products or services with value propositions so compelling that they carve out new market spaces, or take over parts of markets previously occupied by established suppliers. This is exactly what Google has done in internet search, for example, by essentially creating a new set of products whose value to customers is immediately apparent. The challenge for every ambitious new venture is to take the market by storm; to win business quickly at prices that yield margins generous enough to fund expansion though borrowing, attracting fresh equity or generating significant free cash flow. The strategic objective is to move the business swiftly from a subordinate to a more dominant market position in order to fend off inevitable competitive challenges from rival companies.

Taking emergent and established markets by storm

The magic of any type of breakout strategy lies not in the strategy itself, but in its fine details and implementation. It is not possible to specify a universally applicable formula for growth, as every business situation is dependent on a myriad circumstances relating to markets, competitors and organizational capabilities. We can, however, learn to read strategic situations and to manage strategic processes. When companies endeavor to get on the fast track to business growth, for instance, it is important to recognize that they do so from very different starting positions. All major growth opportunities ultimately require issue of a superior value proposition, but there is a clear division between a proposition targeted at an emergent market and one targeted at an established market. Companies that pursue a taking by storm strategy within an emergent market context are true originals. These companies typically are first or near first to market with a product or service whose features strongly resonate with the latent demands of potential customers. They tap into a previously unmet or unperceived reservoir of demand, and, when the reservoir is large, the effect is akin to an oil exploration company ''hitting a gusher''. Rapid growth ensues in consequence. If the company is able to keep pace with the market, it becomes established as a market leader and is able to reap exceptional first mover advantages, including the ability to command premium prices and generate internally the financial resources needed for double-digit growth. In exceptional circumstances, consumer fealty is so strong that the company's brand becomes identified with the name of the product; of which outstanding examples are Hoover and the vacuum cleaner in bygone times, and more recently Google and the internet search engine. Other notable technological true originals include Bell Telephone (AT&T from 1899), Edison General Electric (GE from merger with Thomson-Houston in 1892), Research in Motion (famed for the Blackberry), Cisco Systems and eBay. Each demonstrates the crucial importance to business growth of recognizing the previously unseen potential for markets to emerge, take shape and gain critical mass within the space of just a few years.

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On the other hand, companies that pursue a taking by storm breakout within an established market context are revolutionaries. These companies pursue rapid growth by changing fundamentally the competitive rules of their chosen markets[1]. They may be just as innovative as true originals, but their brilliance lies in radically improving an existing product or service rather than in creating entirely new markets. They aim to win market share very quickly by giving customers a much better deal than those currently on offer from existing suppliers: by delivering a superior product, a lower price, or both. For instance, The Boston Beer Company, founded by Jim Koch in 1984, triggered the micro-brewery revolution in the USA by producing high quality beers like Sam Adams Boston Lager for more discerning upper income consumers. In the world of education, the Apollo Group – through its University of Phoenix subsidiary – successfully challenged the domination of higher education by traditional universities through creating flexible, career-related learning opportunities for working people, at first in the USA and later in other parts of the world. In personal, home and auto insurance likewise, revolutionary start-up companies like the UK's Direct Line, in cutting out brokers and other sales intermediaries, have enjoyed rapid growth by offering simultaneously lower prices, improved product features and better service.

So how do you set about taking your market by storm? Returning to the five essential practices of breakout strategy mentioned earlier, let us work through each to illustrate the pathway to delivering – and sustaining – high growth strategy.

Taking vision by storm

The vision driving strategic breakout is always premised on meeting stakeholder needs and aspirations through a vision that appeals to and inspires all. A company that takes by storm employs its vision to revolutionize and reach out. The idea is fresh and promises to transform the market but taking by storm companies are often new and must aggressively sell their vision to anyone who will listen – especially if they are potential customers. New York-based low fares airline, jetBlue Airways, illustrates this perfectly. Since its launch in 2000, jetBlue has shaken up the budget airline sector, and indeed the wider air transport industry, causing a refocus on customer service – but only when it is built on cost efficiency and low fares. In so doing, the company spurned the trend away from service in the US airline industry and established jetBlue's vision as original and driven by its own unique values and objectives. jetBlue's senior management team successfully delivered this vision through a non-hierarchical, people-centered and customer-focused strategy. jetBlue's founder, David Neeleman, was acutely aware from the outset that vision must be inclusive and that giving all employees a stake in shaping vision results in much more effective vision delivery. The airline business has seen more than its fair share of companies rapidly entering and exiting the business. It is an infamous industry for not making money and for failing to deliver on strategic vision. Margins are tight, costs are high, competition is fierce and demand cyclicality is constant and often dramatic. There are notable exceptions to the rule and these companies have become household names. In the USA, Southwest Airlines and jetBlue Airways are synonymous with value for money and good service. Both companies base their success on a clear and consistent vision and value offering, balancing low prices with efficient operations and friendly service. jetBlue differentiates itself from Southwest most notably on service, where it tends to trade-up on passenger comfort and amenities in return for a marginally higher average fare. But both the Southwest and jetBlue success stories have one thing in common: each has an inclusive and proactive vision that forges an aspirational and deliverable corporate strategy. This vision is clear and consistent to all stakeholders and straightforward in its manifestation both as a customer value proposition and an organizational business model.

Taking by storm value propositions

The hallmark of a taking by storm breakout strategy is speed and surprise. In emergent markets, true originals are usually first movers or close to first movers in a marketplace. They see an opportunity in classic entrepreneurial fashion and act quickly to capitalize on it. For example, Google saw the potential for internet search long before mainstream players did. They moved quickly to develop a one-stop shop search engine, free to users and reliant on advertisements to make money. Google's streamlined, user friendly interface, sophisticated software and range of different but related features like Google Finance and Froogle for

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online shopping searches, propelled them to the forefront of their market. In this instance, as with most true originals, there is a premium in carving out a position before others can react.

Revolutionaries may feel compelled to move even faster. These companies follow a taking by storm strategy in established markets, and have even more to fear from incumbents who find they have been out-flanked by nimbler players. Speed and surprise are virtual prerequisites for these companies to be successful. When Reed Hastings and Mark Randolph launched Netflix in the late 1990s – offering an internet-based unlimited rental subscription service for DVD movies – the business took off like wildfire[2]. A key aspect of Netflix's success was a value proposition offering original features and comprehensive support – a novel idea in an industry characterized by rental stores that usually stocked little beyond the most recent blockbuster movies and that had very loose relationships with their customers. For instance, the Netflix recommendation software introduced customers to new movies based on prior rental choices. A user-friendly queue management and rating system ensured that customers could have their own personal box office online and for a fixed monthly fee, could have a steady flow of movies delivered to their home. Even better, the company operated a no-hassle free delivery and returns service and allowed customers to keep movies for as long as they liked. This focus on innovative features, individualized and flexible customer support, and universal availability (within the US market), has proven a winning combination. These were revolutionary ideas in an industry characterized by an increased uniformity of service and product. Netflix experienced double-digit growth from the beginning and rapidly inspired a loyal clientele and an iconic reputation. It has grown rapidly to become the world's largest online DVD movie rental service, offering more than 60,000 titles to four million members across the USA.

For taking by storm breakouts, speed and surprise translates into a key challenge. The value propositions that define their strategies must be sufficiently differentiated, and superior, to what already exists in the market to ensure that customers will pay attention. This is no place for marginal improvements. These companies are defining, and redefining, the rules of the game in their industries and their value propositions must reflect this aggressive stance. Essential differences persist between true originals – where breakout requires a brand new value proposition – and revolutionaries – where an existing value proposition is expanded or redefined. But in both instances, taking by storm breakouts are facilitated when there are major discontinuities or disruptions in the environment. This is when the big opportunities that allow taking by storm to be feasible emerge. Looking forward, it may well be that major demographic changes among baby boomers will create new opportunities for revolutionaries in home health care, nursing homes and other seniors-focused industries. After all, not that long ago the rise of the green movement and environmentally conscious shoppers opened the door to Anita Roddick to adopt her revolutionary breakout strategy for The Body Shop.

Taking by storm business models

When you highlight the importance of speed and surprise for taking by storm breakouts, inevitably, this leads to some ''learning on the job'', as you create your business model to follow through on your customer promises. With your company's vision as your guide, potential threats can be turned into opportunities, and mini-opportunities can be important learning opportunities. At no point is it safe to just hope you are delivering what you promised, but in reality taking by storm breakouts never do operate in lock-step fashion. Also, at some point, and this is a case where sooner is absolutely better than later, your business model must be world-class. Customers may put up with idiosyncrasies for a time in exchange for a blockbuster value proposition, but you should never test the patience of your customers. When there are alternatives (which may well occur quickly for taking by storm players as larger competitors seek to get in on the action), products that don't work as advertised make it very tough for customers to stay loyal to that new, exciting, entrepreneurial start-up that just can't get its act together. Google's early advantage and subsequent staying power in the Internet browser business is mostly due to the company's realization that success is predicated on a robust business model that does not over-complicate or under-deliver the value proposition. Despite aggressive assaults by enterprises larger and smaller, Google has endured and grown to become the model that everyone else looks to emulate. As Google illustrates, it is usually much better is to get it right from the start. There are certainly great examples of taking by storm companies doing exactly that. Costco is a fascinating taking by storm revolutionary that has its business model in top-notch working order. Washington state-based Costco refers to its stores as ''warehouses'' and its customers as ''members'' and tries to cut out intermediaries by purchasing most of its merchandise directly from manufacturers and passing on the resulting savings to its members. Costco is renowned for paying its people better than the average and having higher staff productivity and lower turnover than its rivals. The Costco business model is a winner as it combines cost efficiencies, innovation on product sourcing and sales, consistently reliable quality, strong and enduring relationships with customers, staff and suppliers, restricted channels to increase interest in their thinly distributed warehouses, and a brand based on quality and integrity.

One important point on business models in taking by storm breakouts: there is often a degree of innovation that is needed across the spectrum of elements that make up a business model. eBay has a remarkably low cost structure because the internet is so well-suited to its business model. Google continues to innovate on features to consumers. Costco, already strong on quality, keeps pushing logistics, back-office operations, and warehousing to boost efficiency. The Apollo Group continues to shift services and materials online to make life easier for their students. Cirque de Soleil is popping up in more, and original, locations to increase availability to customers. easyGroup takes its orange image and cheap and cheerful reputation into a wide variety of established industries, intent on shaking them up and benefiting the consumer. Hence, innovation can be a key weapon for taking by storm players as they try to not only to establish a beachhead in a market, but also to stay ahead of followers with deeper pockets. This point is particularly important for revolutionaries. These companies need business models that break the rules along multiple dimensions. Unlike true originals, who not only have the advantage of coming to market with something new but also benefit from the greenfield opportunities they are after, revolutionaries compete in established markets and hence, face a tougher bar for breakout. They must develop business models that redefine the ground rules in a market in many different ways. It is rare for a revolutionary to come to market with just one differentiator, and indeed the mindset of revolutionary breakout is to challenge industry convention as a whole rather than just tinker at the margins.

Taking by storm execution

Taking by storm breakout companies have a big advantage, and a big disadvantage, relative to other breakout types, and both stem from the same reality. These companies are smaller and more entrepreneurial in nature, and hence, do not have an installed base of systems and processes to rely on, or to overcome. Unique among breakouts, taking by storm companies have little to unlearn, at least from a corporate perspective. Their leaders

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may need to battle the assumptions that arise from their own past experiences in other companies, but that is another story. There is really no ''past'' to these companies; the mere fact that they are attempting an entrepreneurial breakout implies a degree of innovation. Of course, companies that bring no innovation to the taking by storm strategy will never have a chance, so in some ways the innovative mindset that is so important to strategic change is part of any serious attempt to execute on taking by storm.

By the same token, however, the lack of history also means that there is no infrastructure to rely on. There are no ongoing projects or programs that can be adjusted to fit the demands of breakout. With few exceptions – there are some taking by storm breakouts that evolve more gradually – the socio (people-oriented) and techno (process-focused) systems that lie behind the implementation of breakout strategy must be created. Complicating matters is the typical instance where resources are very limited; making it highly unlikely that you will have the people and capital needed to create a fully realized implementation plan. Despite these challenges, there are important pathways breakout companies can follow to minimize the downside, and maximize the upside, that comes with newness. For example, when the Boston Beer Company started out in the mid-1980s, founder, Jim Koch, recalls:

> I started the company on $100,000 cash of my own money and then I raised $140,000 from a couple of clients and relatives. We started with no overhead. Two people. That was it . . . there was just me and a secretary named Rhonda. We didn't even have an office. We ran it, we had an answering service and we had a truck[3].

Koch took on multiple tasks. On Mondays, Tuesdays and Wednesdays, he would promote and sell his new product, Sam Adams beer, and on Thursdays and Fridays he would deliver it, driving the truck around Boston and carting a two-wheeler trolley with five cases of beer weighing 190 pounds up and down the steep basement steps of old New England bars and restaurants. To make his first hire – his secretary, Rhonda – Koch had to lure her away from a well-paid secretarial job at his old employer, the Boston Consulting Group, attracting her with assurances of a new and exciting challenge and promises of a stake in the business. The company's breakout strategy was purposefully designed to minimize both socio and techno system resource needs, ensuring successful implementation could be achieved without an extensive and expensive set of resource inputs.

In the same spirit, when wholesaler Costco first broke out, it dealt with resource constraints in strategy execution by employing a no-frills approach. The company operated out of low overhead warehouses where the goods were not even removed from the pallets on which they were delivered. Shopping was self-service and inventory was minimized by having a rapid turnover and a policy of not stocking many of the same goods twice in succession. On the people side, Costco spent more to get more – paying their people better than rivals and providing a range of added benefits but as a result, ensuring higher productivity and lower staff turnove[4].

Over time, however, even the taking by storm breakout requires extensive systems and processes, backed up by targeted programs and projects. Neglecting either of the socio and techno systems in a company is not a sustainable formula for success. The Body Shop's creative entry strategy, for example, eventually broke down because of massive inefficiencies in business processes. Sometimes, a change in leader is needed to make this transition from initial breakout to sustainable breakout, as was the case with Kuala Lumpur-based AirAsia. Similar to the Ryanair story, AirAsia was initially launched as a full-service regional airline offering slightly cheaper fares than its main competitor, Malaysian Airlines. The company was loss-making until charismatic former music industry executive Tony Fernandes took it over and transformed the business into Asia's first successful low-cost, low fare airline.

One final point here. Strategic change for taking by storm companies is really all about breaking the rules in an industry or market arena. This is true for revolutionaries as it is for true originals. These companies see an entrepreneurial opportunity that emerges from changes in a market space, or a vision of the type of changes that could take place in a market space. A frame-changing value proposition is created; continuous learning and flexibility fine tune the value proposition; the business model is often unique as well to match the demands of the value proposition; and then comes the challenge of effective implementation. Despite all

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that is different in these breakouts, at the end of the day we return to the first principles of execution. There is no getting around the need for world-class socio and techno systems, regardless of how innovative the core strategy may be. There is an irony in this. Learning, unlearning, and change are the key watchwords for effective implementation of all of the other types of breakout strategies, but success in taking by storm breakouts – in some ways the most unique and original of all – depends on mastering the art and science behind basic business processes that seek to energize people at the same time as they emphasize efficient operations.

Conclusion

Taking by storm companies – be they true originals or revolutionaries – are united in their clarity of purpose and determination to win. Getting on the fast track to business growth is uppermost in all they do, surpassed only by a desire to be number one. Bill Gates at Microsoft and Larry Page at Google created new markets and never-before-seen products, while Ingvar Kamprad at IKEA and John Sperling at the Apollo Group saw an opportunity to redefine the way in which business is done and made it their own. These entrepreneurs have a good deal in common. They understand how a compelling value proposition should be crafted and how it might be delivered. They have the tenacity and leadership capabilities need to hold a business together as it grows and changes during breakout. It is these skills and characteristics combined with the breakout strategy process we have outlined that enable start-up companies to effectively manage and continuously deliver high growth performance.

Keywords:
Strategic leadership,
Business formation,
Business development

Notes

1. In a similar way to that described by Gary Hamel in ''Strategy as revolution'', *Harvard Business Review*, July-August, 1996, pp. 69-82.
2. Thanks are due to Prashanth Kamath and Sungsook Hong, Tuck '06, for their contribution to this case.
3. Interview conducted by Thomas Lawton with Jim Koch, founder and Chairman, Boston Beer Company, Hanover, New Hampshire, 6 April, 2006.
4. A 2004 *BusinessWeek* study found that Costco has one of the most productive and loyal workforces in all of retailing and attributes this in large part to their salaries, with Costco's average hourly wage being 40 percent higher than archrival Sam's Club. On top of that, Costco spends significantly more than rivals on workers' health and retirement benefits and runs a successful profit-sharing scheme (*BusinessWeek* Social Issues Commentary, ''The Costco way'', April 12, 2004).

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