

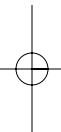
Additional Praise for **Blueprint to a Billion**

“The Blueprint not only gives me confidence that even mature industries can find growth, it provides a road map for all business leaders to follow.”

—Mike Petrak, VP Marketing, Knight Ridder, Inc.

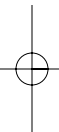
“Provides nonprofit leaders with exciting approaches to create a vibrant, growing organization. Utilizing the 7 Essentials approach, Thomson has identified practical guidelines and tools to achieve transformation and growth of an organization. This is a significant new resource for social sector leaders.”

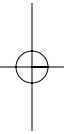
—Frances Hesselbein, Chairman, Leader to Leader Institute,
formerly The Drucker Foundation





BLUEPRINT TO A BILLION





BLUEPRINT TO A BILLION

**7 ESSENTIALS TO ACHIEVE
EXPONENTIAL GROWTH**

David G. Thomson



WILEY

John Wiley & Sons, Inc.

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Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

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Library of Congress Cataloging-in-Publication Data:

Thomson, David G.

Blueprint to a billion : 7 essentials to achieve exponential growth / David G. Thomson.
p. cm.

Includes bibliographical references.

ISBN-13: 978-0-471-74747-5 (cloth)

ISBN-10: 0-471-74747-5 (cloth)

1. Corporations—Growth. 2. Industrial management. I. Title.

HD2746.T56 2006

658—dc22

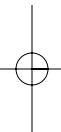
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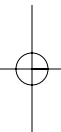
Printed in the United States of America.

10 9 8 7 6 5 4 3 2 1



This book is dedicated to my family. I am especially thankful to my wife, Eileen, and our four children—Christine, Allison, Julie, and Kevin. I am blessed to have their love, which allowed me to take special family time to research and write this book. Also, I am very thankful for my parents' support and contribution.





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Foreword

Blueprint to a Billion provides a roadmap for the future. This roadmap can help leaders take their organizations to the top *and* it can help companies thrive in the face of incredible global competition.

The lifeblood of every person, company, and even the country's success is innovation and the creation of new opportunity. Many of the historically great companies in the United States are either gone or in trouble. The demise of many of America's leading companies has been amazing and dramatic. Who could have ever predicted that at this writing:

- AT&T, once the world's most powerful and valuable company, would be purchased by SBC at a value that was one-third what Procter & Gamble paid for Gillette, a company that is best known for making razor blades.
- United Airlines, formerly a global leader in air transportation, would be in bankruptcy.
- Sears, the long-time king of retailing, would be purchased by Kmart, a company that itself just emerged from bankruptcy.
- General Motors, an icon of American industry, would be so financially weak that its bonds have been lowered to "junk" status.

AT&T, United Airlines, Sears, and General Motors are not the leaders of the future!

While the United States has had great economic success, particularly in the latter part of the 20th century, its future is less certain unless companies and their managements focus on innovation. Society's hope for the future is the continued creation of vibrant, growing organizations that produce great new products and provide exciting new jobs. *Blueprint to a Billion* describes how small companies have become big winners. More important, it provides practical guidelines that leaders—at all levels—can use to ensure that this keeps happening.

Nothing is more important to me than the success of my clients, students, and friends. I have had the privilege of knowing and working with David Thomson for many years. In the same way that it is incredibly difficult to turn a billion-dollar idea into a billion-dollar business, it is incredibly difficult to turn a great dream into a great book! David has spent three years analyzing what Blueprint Companies have done right. He has distilled this knowledge into practical guidelines that leaders can use to transform their own business. He has a wisdom that has been forged through years of real-world management experience, countless interviews, thousands of hours of analysis, and a passion and curiosity that drove him to make this project a reality.

Along with being a guide for business growth, the Blueprint provides tools that any leader can use to create a huge impact. As David notes, "The Blueprint is about how you can create exponential impact in your business, your organization, and your team."

David has done a wonderful job of illustrating what works and describing why it works. He has analyzed the winning companies and identified what they did right. He has done his job. The more important work remains for us, the readers, to do.

How can we use this knowledge to not just make an impact, but to make a *huge* impact? How can we lead massive value creation in our organizations or teams? How do we turn our great ideas into thriving organizations that are creating jobs and making the world a better place?

The real value of this book is not its interesting stories, thorough analysis, and great suggestions. The real value lies in what we do with what we learn.

Like a good architect, David has given us the Blueprint. We need to get to work and do the building, the building that can last.

MARSHALL GOLDSMITH

Marshall Goldsmith is a world-renowned executive educator and coach. The American Management Association recently named Goldsmith as one of 50 great thinkers and business leaders who have impacted the field of management over the past 50 years.

Preface

During the height of the 2000 boom, the rubber hit the road in a manner of speaking. At that time, I was being courted for a position as the CEO of a smaller-sized high-tech equipment firm. This was a turnaround situation. I assessed the company's potential in light of its still-committed investors and founders. Could this company be turned around or was it going down with all hands on deck? I could not find customers who were all that excited about its product. There was an empty sales funnel, no strong customer prospects, and a lack of cash (which would not materialize without customers or at least customer commitments). The "top-drawer" investors wanted a larger order from a premier customer before reinvesting.

Given the short runway, I found myself at odds with the investors over the potential of this company. We did not share the same perspective on the company or its future because we were looking at it from different frames of reference. They wanted a customer before infusing a limited investment into this company. I believed customers needed to buy from a company with committed investors who would ensure that the company was adequately funded. It was then that I realized that there was no common frame of reference for building a great company. Upon turning down the opportunity, the recruiter said I should have just taken the risk but I wanted more than luck to counter the odds. As a general manager and sales executive who has transformed teams and customer relationships, I wanted to base my actions on more than a gamble. As it turned out, the company soon went out of business.

What *is* the pattern of success for America's highest-growth companies? My CEO friends did not have any more of an idea than I did. They could tell me anecdotally about companies that failed or succeeded. But none of them had a completed business-building roadmap or a blueprint. Luck is not my kind of strategy. I wanted

a blueprint—a blueprint to tell me if I am building a small building or a skyscraper of business. It is not what the walls are made of; the blueprint is about laying the foundation and structure for a truly great business, not another shaky, imperiled venture.

As I continued my search for what makes a company truly successful, I applied my line executive background from Nortel Networks and Hewlett-Packard as well as my consulting skills from McKinsey & Company. Despite this combination of intuitive and fact-based problem-solving skills, I began to feel that I was working around the problem, not through it. People talked a lot about their experiences, but I could find no fact-based pattern from which I could be prescriptive rather than descriptive.

As I focused on what makes a company successful—what drives a firm from an idea to a billion-dollar business—I considered the classic explanations: superior innovation, great management teams, and superior organizations. Yet none of these, or even the combination of all three, provided a quantifiable frame of reference for business building. For example:

- Understanding the natural evolution of organization life-cycles from infancy to maturity did not explain why some companies made it to a billion while others did not.
- Great management teams could fail to grow great companies. How many companies do you know with a brand-name CEO that did not succeed?
- The technical community often focuses on breakthrough technologies, yet many companies have died with such advanced technology still in the lab.

I came to the conclusion that no one had the answer to the killer question: What is the *quantifiable* success pattern for America's highest-growth companies? It was then that I decided to "primary research" the answer in clear and measurable terms.

What You Can Expect from This Book

This book identifies how America's highest-growth companies made it to the top—the seven common essentials of a unique set

of 387 companies that went from an initial public offering since 1980 and achieved \$1 billion in revenue. They are called the *Blueprint Companies*.

This book is about the success *patterns* that winning companies follow that produce the performance many admire and desire to emulate. These Blueprint Companies are known not only for their innovation, but also for their exponential revenue and returns—growth irrespective of economic or business climate.

This book provides a blueprint that is fact based and actionable. It contains fresh research that provides time-tested insights into success-based business building. Adoption and execution of one or more essentials will maximize your growth—both personally and corporately. Executing all 7 Essentials will enable your company to achieve exponential growth.

This book serves a broad audience and is written for management teams, large and small, general and functional, and in big corporations and stand-alone companies. *Blueprint to a Billion*TM can also serve investors, board members, educators, students, regulators, and legislators who are concerned with creating a successful environment for business growth. Anyone who wants to stimulate innovation and business growth should find the Blueprint Companies and how they achieved their success worth knowing. The leadership and management of international corporations that deal with high-growth American businesses will also find this book valuable, especially if they wish to benefit from the success pattern of U.S. Blueprint Companies.

The Study

Blueprint to a Billion presents the *first* quantitative dissection of America's most successful growth companies. This is the first work to display the common financial pattern of America's Blueprint Companies. While this book has a quantitative foundation, I have supplemented it with what I hope are insightful analysis and vibrant personal stories from many Blueprint Company leaders.

These insights come from a series of research projects that took place over three years. I collaborated with line executives, cus-

tomers, investors, and consultants to problem solve for each of the essentials in order to make them quantifiable and actionable. The financial research was conducted using data from Standard & Poor's Compustat database along with customized financial models. Various databases were utilized to capture corporate histories such as Thomson/Gale's Business & Company Resource Center (BCRC). Finally, I conducted over 75 interviews to complement the research and strengthen each of the essentials. In total, the work has been vetted by over 1,000 executives and investors as I presented my early findings in numerous forums.

This research initially showed that over 90 percent of shareholder value is generated by financial performance regardless of a company's uniqueness or industry type. Exponential success is achieved by significant revenues and cost containment. Management teams earn the right to realize superior returns only if they generate superior revenue growth. Great companies were able to generate both revenue and cash flow growth simultaneously.

The "bottom line" is not about the *coolness* of the brand, the positioning of the business, or the pedigree of the CEO. Those can be important inputs; however, it is exponential revenue growth that makes a great company—so long as the management team ethically seizes the opportunity that it creates to achieve profitability, maintain positive cash flow, and produce high return on capital.

With this in mind, I decided to start my journey focusing on revenue and revenue growth.

From a global perspective, the business world is organized vertically by industry. The investment community specializes by industry. Management teams rarely manage outside of their industry. Comparative financial assessments are done by industry. We even plan our careers within an industry.

During my research, I decided to look for patterns across industries. Is there a common set of essentials that successful companies utilized across multiple industries?

To answer this question, the study's problem-solving approach had a number of parallel work streams (described in detail in Appendix D: Methodology):

1. *Blueprint Financial Pattern.* The overall financial pattern of the Blueprint Companies involved a multiyear study of revenue as well as financial and shareholder-return metrics. Of the 387 Blueprint Companies, I studied the financial pattern of the 250 companies with revenues of less than \$170 million at the time of going public. This enabled a quantitative analysis using public data combined with real-market values. The ranking of these companies was determined using a market-value normalization methodology—that is, revenues were normalized to \$1 billion and then indexed to 2004 market values using the NASDAQ index (because it spans 25 years). The “fall off” rate of Blueprint Companies was derived by identifying companies that made it to \$1 billion revenue but fell back. Inevitably 20 percent of these companies will fall off trajectory post-\$1 billion revenue and fall back below the \$1 billion threshold.
2. *Identification of the 7 Essentials.* Next, I pored through hundreds of corporate histories across multiple sectors, setting up a template that would help identify what Blueprint Companies had in common as they hit their “lift-off” points and began their ascent to \$1 billion revenue. Despite the diversity of companies and industries, I identified 7 Essentials that these companies had in common.

Along with the BCRC, thousands of articles from such publications as *Fortune*, *BusinessWeek*, *Forbes*, industry journals, newspapers, and analyst reports were researched to complement initial findings.

The identification of these essentials led to the third work stream:

3. *Defining the 7 Essentials.* Parallel work streams were established to determine each of the essentials. My team, comprised of line executives, investors, consultants, management-behavior experts, and statisticians worked through a disciplined problem-solving process to prove or disprove hypotheses relative to each essential. In most cases, interviews were conducted by two interviewees so that impor-

tant perspectives were recorded completely. Finally, interviews in this book were checked with all interviewees to ensure that their perspectives, as reported, are accurate and complete.

Applying This Book

This study identifies the success-based financial pattern and key essentials that you can apply to any business to improve its performance. The book is written around an approach that identifies the financial pattern to uncover the essentials and then discusses each essential in detail. In Chapter 9, the essentials are linked to show you how the Blueprint Companies created exponential growth.

Chapter One begins the journey with a Blueprint Thesis. Why a journey? Because the lessons will continue to unfold. The success pattern of these companies is one that should be identified and understood—but, by necessity, will evolve slightly. The journey tells us what business has been doing right for the last 25 years and foreshadows the pace business will need to maintain in the coming years in order to remain competitive.

DAVID G. THOMSON

*Overland Park, Kansas
October 2005*

Acknowledgments

It takes a special team of friends to create what I hope is an insightful book on the Blueprint journey. The support from this highly experienced team contributed much to this book's creation. On behalf of this team, which has become a "Blueprint Community," I hope you learn from this book and apply the knowledge to achieve the best company you can be associated with and become the best business person you can be.

I am indebted to those who were interviewed for this book. They opened their doors to share their experiences. I would especially like to thank Nancy Bailey, Chairman of Bailey & Associates; Roger Boeve, retired founder and CFO of Performance Foods; Mel Booth, retired President and COO of MedImmune; Tim Boyle, President and CEO of Columbia Sportswear; Dick Campbell, former CFO of Paine Webber; Terry Eger, former Vice President of Sales at Cisco; Brent Frei, founder and former CEO of Onyx Software; Jordon Glatt, President of Magla; George Kelly, Advisory Director of Morgan Stanley; Howard Lester, Chairman of Williams-Sonoma; Roger McNamee, Cofounder and General Partner of Elevation Partners; Robert Moone, Chairman and Chief Executive of State Auto Financial; Toby Redshaw, Vice President of IT Strategy and Architecture of Motorola; Joe Scarlett, Chairman of Tractor Supply; George Schaefer, President and CEO of Fifth Third Bancorp; Tom Siebel, Chairman of Siebel Systems; Tom Stemberg, Chairman Emeritus of Staples; and Jeff Weedman, Vice President of External Business Development at Procter & Gamble. Thank you for being such remarkable executives and sharing such practical insights with me. I would like to especially thank Roger McNamee for his thoughtful coaching to take this work to the next level.

This work is so much better because of the problem-solving team members who helped strengthen the analysis that underpins

this book. As I arrived at the problem-solving process, in which I was struggling to understand the unique characteristics of Blueprint Companies and the seven common essentials, I found help coming from many directions. Assistance came from the United States, Canada, and Europe. It came from consultants, investors, and line executives. The resulting team formed a very unique blend of fact-based and line-oriented problem-solving skills that helped to clarify and add depth to each one of the essentials. The investment was a three-year-long research project that represented a major undertaking of time, talent, and investment.

Throughout the making of *Blueprint to a Billion*, I have relied on a select group of friends who have helped me to integrate the book. Deirdre Campbell was my partner on the initial research. I thank Glenn Falcao, who served as executive vice president of an equipment company when it grew from \$200 million to \$31 billion market value at the height of the 2000 bubble. Glenn has been a real friend through this journey. As I started to shape the Marquee Customer and Alliances essentials, David Cox, former CIO for Nortel Networks, Bell Canada, and Motorola played a key role. Mike Unger led an equipment business from \$10 million to \$10 billion and applied his key learnings to the Essentials Scorecard. Mike applies the Blueprint today as he serves on the boards of such venture firms such as Kleiner Perkins, Celtic House, and the Business Development Corporation of Canada. Bart Stuck, of Signal Lake Ventures, was a mentor and pressure tested my thinking. Avery Lyford, former CEO of several venture-backed companies—and part of ramping both IBM PC and Intel Server businesses to over \$1 billion in revenue—was also a thought partner. Mark Hatfield piloted a process for performing due diligence. I am also indebted to Marshall Goldsmith for his friendship and encouragement.

Mark Mitten and Eric Arnson—cofounders of ENVISION, a top brand strategy firm and former McKinsey & Company partners—are experts in growth strategies and the value of tangible and intangible benefits. They contributed greatly to these topics for

Acknowledgments

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Chapters 2 and 3 as well as Appendix B. I also thank them for their passion for shaping the title of this book.

An extended team worked on specific chapters with me. I would like to thank Tim Sepp of Standard & Poor's for his hard work and stamina on the development of the financial models. As I wrote the Inside-Outside Leadership chapter (Chapter 7), Bob Sadler of Sadler Consulting and Peter Robertson of Human Insight kindly helped shape the research and apply the Human Insight tools that we used to examine Blueprint Company management teams. Andy Binns, now an executive coach for a large corporation in Europe, also helped structure and pressure test this chapter.

Many others added to this book in special ways. I would like to thank Beth Axelrod, Tom Ball, Bruce Branyan, Gerry Butters, Liz Byland, Jim Citrin, Jeff Edlund, Glenn Egan, Walt Farrell, Alan Fraser, Tammy Halevy, Hewitt Heiserman, Alan Lutz, Chris Mankle, Denny Matteucci, Mike Petrak, Will Prout, Keith Phillips, Barbara Reinhardt, Kevin Roberts, Joe Sinfield, Dan Stock, Mike Stout, Erik Vogel, Joe Walsh, Bryan Whelock, and Dora Vell.

My friends at McKinsey & Company supported me when I joined the firm as an experienced hire. Thank you Scott Arnold (now an alum), Dick Ashley, Greg Besio (now an alum), Gerhardt Bette, Peter Bisson, Steve Coley, Tarek Elmasry, Chip Hardt, John Livingston, Julian Mack, Marc Singer, Saf Yeboah-Amankwah, and Pat Oaklief for your intellectual and personal encouragement.

This book had a unique set of editors. Erik Calonius, with experience as a writer at *Fortune* and the *Wall Street Journal*, worked hard to ensure that each chapter was well thought out and clearly presented. As we finished the Blueprint Thesis, a very quantitative chapter, Erik was instrumental in shaping the 7 Essentials chapters into narratives that brought the frameworks to life. Together, we interviewed many of the executives represented in this book. Erik was quite thoughtful in asking clarifying questions on behalf of the reader, and is gifted with a fluid writing style. Jennifer Futernick, thank you for your extra special touch and feedback

during the early stages of this manuscript and for encouraging me to address how we learn from best practices. Most of all, I am grateful for your support in refining the manuscript in its final stages. You are a wonderful and caring person to work with. To Pamela van Giessen, Editorial Director at John Wiley & Sons, appreciation for your championing of this book and guidance in shaping it into the best book it could be. Your deft touch and mentoring helped streamline both the storyline and format to make the book an easier read.

Thank you all. You are a great team.

D. G. T.