GROW

How Ideals Power Growth and Profit at the World's Greatest Companies

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The Ideal Factor

Great Businesses Have Great Ideals

What makes a business grow beyond the competition? What powers an enterprise to the top and keeps it there?

I've been fascinated by these questions throughout my business career, from my first job after college to my seven years as global marketing officer of Procter & Gamble (P&G) to my current work as a senior management consultant, an adjunct professor at the UCLA Anderson Graduate School of Management, and a board member of Motorola Mobility and AOL.

I believe I've found the answer. It is a new framework for business, based on improving the lives of the people a business serves, that is rooted in the timeless fundamentals of business and human nature. The latest research, including a ten-year-growth study I conducted of more than 50,000 brands around the world, has inspired and validated this new framework. By operating according to the principles in this framework, the world's best businesses achieve growth three times or more that of the competition in their categories.

The central principle of the new framework is the importance of having a *brand ideal,* a shared goal of improving people's lives. A brand ideal is a business's essential reason for being, the higher-order benefit it brings to the world. A brand ideal of improving people's lives is the only sustainable way to recruit, unite, and inspire all the people a business touches, from employees to customers. It is the only thing that enduringly connects the core beliefs of the people inside a business with the fundamental human values of the people the business serves. Without that connection, without a brand ideal, no business can truly excel.

You will hear a lot about brands in what follows, but a word of explanation first. I use the words *brand* and *business* interchangeably. A brand is what a business is all about in the hearts and minds of the people most important to its future. In any competitive market, what drives margin and growth and separates one business from another—for employees, customers, partners, and investors—is the brand. And what increasingly separates great companies and businesses from good, bad, or indifferent ones is brand ideals.

I first saw the full potential of brand ideals in several line management roles at Procter & Gamble, and then as the company's global marketing officer. The evidence I'm going to present shows that an ability to leverage brand ideals is also what increasingly separates great business leaders from good, bad, or indifferent ones.

Think about what and how you buy in your business and personal life. Whether it's household products or enterprise data services, what ultimately determines why you buy from one company rather than another? It's their brands' images and reputations and the relationships you have with them. A brand is simply the collective intent of the people behind it; a brand defines who you are and what you stand for as a business to everyone the business touches, from employees to end consumers. If you want great business results, you and your brand have to stand for something compelling. And that's where brand ideals enter the equation.

Great business leaders of the past have always understood and acted on this, explicitly or implicitly. When William Hewlett and David Packard founded Hewlett-Packard (HP) in 1939, and in the process kick-started all of Silicon Valley, they explicitly focused their business on making a contribution to society through technology. They didn't call this a brand ideal, but that's what it was. As Dave Packard said, the reason people join together in a business is to "make a contribution to society, a phrase which sounds trite but is fundamental." And as Bill Hewlett said, "We operated on the assumption that if we made a contribution to society, rewards would follow."

Indeed they did. The ideal of improving people's lives with ever-advancing technology has kept HP going—and growing—through thick and thin ever since. The company lost momentum in 2011, as most tech companies do at some point due to the rapidly evolving sector. Still, HP's record of growth in the decade of the 2000s was impressive; according to global research firm Millward Brown Optimor, HP grew their brand value from $5 billion in 2001 to $35.4 billion in 2011.

In my research visit to HP, in several long interviews, I felt HP people—even with the dramatic and unsettling change in their management and board—had internalized the power and potential of a brand ideal, and how it inspires growth. HP director of market research Deepak Sainanee told me, "In terms of growth and margin, brand is really what it comes down to in the end." It's no coincidence, as we'll see, that HP, one of the world's largest technology companies, is beginning to leverage a powerful new evolution of its brand ideal, in spite of the turmoil in senior management.

Today's most successful business leaders are also leveraging brand ideals. Brand ideals, my research associates and I have found, are what enable today's greatest companies to set the pace in their categories and leave their competition far behind.

The 400 Percent Advantage

Recall that chart we just looked at in the introduction. Over the 2000s the Stengel 50, the top businesses in my ten-year-growth study, have generated a return on investment 400 percent better than the Standard & Poor's 500. As we will see, the Stengel 50 are achieving this remarkable success thanks to operating in harmony with their brand ideals. In so doing, the Stengel 50 are riding the crest of a building wave that is reshaping all of business, a dramatic, inexorable rise in the contribution of intangible brand value to total business value.

Brand research and consulting firm Millward Brown Optimor—I partnered with them in my research for this book, and I'll be referring to them often—has a well-established proprietary methodology for calculating brand value. Millward Brown Optimor determines intangible earnings by examining a business's financial results and calculating the percentage of demand for its offerings that is attributable to brand alone. When Millward Brown Optimor recently looked at the contribution that brand equity has made to the market capitalization of the Standard & Poor's 500 from 1980 to 2011, it tracked the birth and development of an ongoing trend.

In 1980 virtually the entire market capitalization of the S&P 500 companies consisted of tangible assets (cash, offices, plants, equipment, inventories, etc.). In 2010 tangible assets accounted for only 40 to 45 percent of the S&P 500 companies' market capitalization. The rest of their capitalization consisted of intangible assets, and about half of that—more than 30 percent of total market capitalization—came from brand.

The growth in the importance of brand value over the last thirty years is unmistakable. Brand value is now most companies' single biggest asset, and the consequence is that business leadership and brand leadership are converging in every industry and every sector of the economy. The world's best companies have responded to this by ensuring that they bring together business leadership and brand leadership in the C-suite and throughout their organizations.

In short, businesses are now only as strong as their brands, and nothing else offers business leaders so much potential leverage. That is why I believe every business leader—whether you are selling cars, chemicals, or cosmetics—needs to think and act like a brand leader.

The business case for brand ideals is not about altruism or corporate social responsibility. It's about expressing a business's fundamental reason for being and powering its growth. It's about linking and leveraging the behaviors of all the people important to a business's future, because nothing unites and motivates people's actions as strongly as ideals. They make it possible to connect what happens inside a business with what happens outside it, especially in the "black box" of people's minds and how they make decisions. Ideals are the ultimate driver, my research has found, of category-leading growth.

One way or another, I've been homing in on the business value of ideals since I was an eleven-year-old kid in Lancaster, Pennsylvania, with a neighborhood paper route and a lawn-cutting and snow-shoveling business. In hindsight all three jobs showed me that understanding what my customers valued and trying to improve their lives produced a big payoff. These weren't things I thought about consciously, of course; rather, I did them intuitively.

Knowing that the arrival of the paper punctuated the day for the retirees on my route, I knocked on the door, handed them the paper, and took a moment to chat. This brought me lots of freshly baked cookies and other treats and little tips through the year, and over-the-top tips at Christmas.

In snow shoveling and lawn cutting, I always looked for more that I could do for each customer. I was upselling before I ever heard the word. Could I shovel the sidewalk and the driveway as well as the front walk? Could I trim the hedge as well as cut the lawn? When customers went away for the summer or on a long vacation, I said, “I want to keep the yard looking nice for you, so why don’t I mow your lawn every five to seven days?” That made each mowing easier because I wasn’t hacking through deep grass, and I got paid more for cutting the lawn more often. All in all it was a nice portfolio of work until I graduated to more serious jobs, such as a summer on a road crew.

My first grown-up job, after graduating from Franklin and Marshall College in Lancaster, provided a complementary lesson on understanding customers’ fundamental values. Time-Life Books was then moving from New York City to Alexandria, Virginia, and I joined its editorial department there. I enjoyed helping assemble and market multivolume book sets on a wide range of subjects, but the longer I was there, the more I felt that the organization was going to hit a wall.

Again, this is all in hindsight, but the leaders of the business failed to question the continuing viability of their business model. They had an organization with great equity in packaging and presenting infotainment, nonfiction subject matter with targeted demographic appeal. But they never asked, “What’s special about this organization? What do we stand for in our customers’ minds? What can we do if they stop buying book series on World War II and the Old West?”

In the years after I left to pursue an MBA at Pennsylvania State University’s Smeal College of Business and then joined Procter & Gamble, the leadership of Time-Life Books kept ignoring that question even as it grew more urgent. Scattered successes kept Time-Life Books alive until 2003. Its decline through the 1980s and 1990s paralleled the birth and growth of niche cable television, which met the same infotainment needs in the form of channels such as the Learning Channel, the Weather Channel, the Food Network, the History Channel, and the Discovery Channel.

Can you imagine Time-Life entering that mix as a channel of its own or as a producer of programming for the new channels? Certainly a business with Time-Life's value in the public's mind had a genuine chance to do so in the early-to-mid 1980s. As the 1980s drew to a close and the 1990s wore on, however, it became harder and harder to conceive of Time-Life pulling off such a move.

Perhaps those who know the Time-Life culture intimately will say it was never possible, or that the business never had sufficient resources of its own or enough of a draw on the resources of its parent company, first Time, Inc., and then Time Warner. Well, compare how the National Geographic Society built on the brand value of *National Geographic* magazine to create the National Geographic Channel, extending their brand from magazine into new channels and offerings.

Remain stuck inside your current business model, and your business's days are numbered. Make a brand ideal your North Star, and the sky's the limit. That's because a brand ideal powerfully inspires continuous innovation toward a higher-order benefit. In what follows, I'll share many examples of how today's most successful business leaders orient their innovation programs around their brand ideals. You'll hear about this directly from the leaders themselves, as they shared their insights, principles, and practices with me during my research visits to their category-dominating businesses.

Because Time-Life's leadership never asked what the organization's reason for being was besides selling multivolume book series, they were never able to rally the organization around a higher-order ideal of improving the lives of the people they served. If Time-Life had seized the ideal of satisfying people's endless curiosity about the world's wonders, as the Discovery Channel soon did (as we'll see, ideals cannot be proprietary, but distinctive ways of fulfilling them can be), it could have envisioned a transition to other media before its existing business model became obsolete. If not a cable television channel or content producer, Time-Life might have become a dot-com that attracted growing communities of interest in different subject areas, as AOL did and continues to do. And as Facebook, Zynga, LinkedIn, and China's RenRen are doing so effectively, as they too attract communities of people around common interests.

Why Choosy Mothers Really Chose Jif

Going to work at P&G brought me into one of the world's great companies with extraordinary people and capabilities. The pivotal assignment of the early part of my career there was working on Jif peanut butter, a $250 million business in P&G's food and beverage division. From assistant brand manager to brand manager to associate marketing director, I was involved with the Jif business for six years, an unusually long time compared to P&G's traditional career path, in which managers on the rise usually moved to a different business every two years.

Over the course of those six years I did a number of things that P&G didn't do then, beginning with putting together a small but diverse team. We had a Korean American woman, an African American woman, a white woman from Oregon who had previously been in the sales organization, and a white male engineer who had moved into marketing from manufacturing. The diversity of this group was remarkable not just for P&G but for a mid-1980s management team in general.

I brought this team and our ad agency team, from Grey Advertising in New York, to meet the farmers who grew the peanuts for Jif on a contract basis. When we had a new ad campaign, I took the video or visuals to the factory in Lexington, Kentucky, and stayed there for twenty-four hours so that I could show them to all three shifts and get their feedback and input. And before it became the vogue, we did an unusual number of in-home visits and shop-alongs with moms.

These in-home visits and shop-alongs sharpened our sense of Jif's core customers from simply women between the ages of eighteen and thirty-four to highly engaged moms with children from toddler to early elementary school age. My guiding thought was that Jif should become the most loved peanut butter by exemplifying and supporting what these moms valued. So we had to have the highest quality and make sure there were no traces of carcinogenic aflatoxins, a toxin produced by mold, in the peanuts we used. We had to address moms' concerns about healthfulness and nutrition in general. We had to have great taste that young kids loved.

Jif had abandoned its famous "Choosy mothers choose Jif" slogan for "Taste the 'Jifference' in Jif." I thought the older slogan really expressed what we stood for, and I brought it back, an unheard-of move at P&G.

When the folks from Grey met the peanut farmers and our workforce in Lexington, and saw millions of peanuts being sorted for the slightest imperfection with laser scanning, they were blown away by such insistence on quality control. This deeper understanding of our superiority led to a full-page newspaper ad campaign headlined "The Answer Is No." The ad featured a photo of a jar of Jif with little paragraphs explaining that our peanut butter had no cholesterol, no preservatives, no artificial colors or flavors, and so on. It was based on the top ten questions that moms asked us about Jif.

In tune with our overall effort to support moms' values, we did national promotions where we donated 10¢ a jar to local PTAs. Even in the mid-1980s, without the databases that are now available, we were able to apportion the donations very accurately by retail store and school district.

The creative energy these efforts brought to the Jif team at P&G, not just in marketing but in manufacturing and other functions, transformed the business from a sleepy one to an explosive growth story. We achieved record market share, gaining two full share points in a market where fractions of a share point had been all but impossible to win without eroding margin. We also attained record profitability, with increases in total profit and profit margin of 143 percent and 110 percent respectively in the first year of our efforts. We did even better the following year. These results became a highlight of my career and the careers of the key members of my small management team.

Looking back on my largely intuitive decisions about the business, I can see how they exemplify the power of ideals. By explicitly aligning the business with moms' values, we implicitly—and subconsciously—aligned it with a fundamental ideal of human growth. We became more than a peanut butter maker. We became a partner with moms in their young children's development. It presaged the creation of Pampers' subsequent, more profound partnership with moms in their babies' development, which I'll discuss in detail later.

If you're willing to embrace the same concept and align your business with a fundamental human ideal, you can achieve extraordinary growth in your own business and your own career. My research shows that your growth rate can triple. Imagine the possibilities that creates for you, your people, and your community.

The Ideal Factor—a shared intent by everyone in the business to improve people's lives—keeps renewing and strengthening great businesses through good times and bad. It's what links businesses as different as buttoned-down consulting firm Accenture and revved-up Red Bull, the lifestyle drink of Gen Xers and Millennials. The commitment of these businesses and their leaders to ideals of improving people's lives emerged in my global ten-year-growth study of long-term performance in more than 50,000 brands, which I will detail in the following chapter.

Does a shared goal of improving people's lives sound, well, too idealistic for the rough-and-tumble of business? What about practical, hard-nosed goals such as making the quarterly numbers, increasing market share, and cutting costs?

All are crucial, but the best businesses aim higher. When many business leaders articulate mission and vision statements, they typically talk about having the best-performing, most profitable, most customer-satisfying, most sustainable, and most ethical organization. Strip away the platitudes, and these statements all aim too low. And when they mention the customer, it's the customer as seen from the company's point of view and in terms of the company's agenda.

Even when it's a start-up talking about new markets, a mission statement in this form boils down to: "We want our current business model to make or keep us the leader of our current pack of competitors in current and immediately foreseeable market conditions." This is a formula for mediocrity, locking an enterprise into a business model based on the agenda of the business, not that of the customer. But business models have to change with market conditions, and the only sure basis for creating viable business models over the long term is when a business and its customers have a shared agenda. For example, as we'll see in the next chapter, a central impetus for the high growth of Brazil-based energy giant Petrobras has been the agenda of sustainable development it shares with the Brazilian people.

By linking a business's core beliefs with fundamental human values, an ideal of improving people's lives clarifies the business's true reason for being. And this in turn supports open-ended processes that can drive many different business models in succession.

Don't get me wrong. It's necessary to want to be the best-performing enterprise around, with the highest standards, the best people, and the most-satisfied customers. Again, however, this simply doesn't aim high enough and look far enough ahead. To hit higher targets and get and stay in front of the competition requires an ideal.

The Foundation for Growth and Profit

Procter & Gamble had a remarkable run in the first decade of the twenty-first century. But in 2000, it was in big trouble, having recently lost $85 billion in market capitalization in only six months. Its core businesses were stagnating, and its people were demoralized.

A. G. Lafley, then the CEO, asked me to take on the role of global marketing officer to help transform the culture of the company to one in which "the consumer is boss." I jumped at the challenge, and proposed building the best marketing organization in the world, attracting the best talent—with focus on growing the market share of the majority of our businesses—and making our marketing known, recognized, and admired by all the people important to P&G's future. This included current and prospective employees, all our agencies, the business media, investors, and of course our retail customers and end consumers.

To hit these big targets we needed an even bigger goal: identifying and activating a distinctive ideal (or purpose, as P&G dubbed it) of improving people's lives inside every business in the P&G portfolio. We could then establish each business's true reason for being as the basis for new growth, and we could link them all into a strong foundation for P&G's recovery by building each business's culture around its ideal.

Every P&G business had to communicate its ideal internally and externally. Most important, A. G. Lafley and I and the rest of the senior management team expected each business leader to articulate how each brand's individual ideal furthered P&G's overarching mantra of improving people's lives; we had to model that; and we had to measure all our activities and people in terms of the ideals of our brands and the company as a whole. The success of that effort brought P&G extraordinary growth from 2001 on, as I'll describe.

Ideals unlock the code for twenty-first-century business success because they leverage timeless truths about human behavior and values in business and in life. They enable life to influence business and business to influence life.

Pampers' brand ideal, for example, its true reason for being, is not selling the most disposable diapers in the world. Pampers exists to help mothers care for their babies' and toddlers' healthy, happy development. In looking beyond transactions, an ideal opens up endless possibilities, including endless possibilities for growth and profit.

A viable brand ideal cuts through the clutter and clarifies what you and your people stand for and believe. It transforms the enterprise into a customer-understanding machine, personalizing who your best customers are and what values you share with them. It helps crystallize your business's existing and potential points of parity and points of difference with the competition. It illuminates your organizational culture's strengths and weaknesses, so that you can see what needs to change and what doesn't, what's negotiable and what's not, what can be outsourced and what is core.

Highly adaptive and flexible, a brand ideal is not tied to a particular business model and has no expiration date. It generates effective new business models, strategies, and tactics before the current ones have lost their freshness and begun to produce diminishing returns. On the other hand, the surest route to business obsolescence is ignoring or misunderstanding the significance of ideals.

Most important, a brand ideal enables leaders to drive results by being absolutely clear and compelling about what they value. Few leaders articulate that well. It can't just be numbers and money. Numbers and money alone will not motivate and drive great performance and bring or keep valuable people on board. The higher your position as a leader, the simpler and more robust your message must be to translate across varied individuals, teams, groups, divisions, and business units. Ideals do that because they speak to universal human instincts, hopes, and values.

P&G's growth in the 2000s was a life-changing journey of discovery for me into the drivers of sustained business growth, and I'll be sharing lessons from that experience throughout this book. I'll also be sharing lessons from my research, teaching, and consulting since I left P&G in 2008, especially the ten-year-growth study I mentioned, the Stengel Study of Business Growth.

I'll recount the full story of the Stengel Study in the next chapter. But the title of this chapter sums up its central finding: great businesses have great ideals. That is what emerged most prominently when I mined the data and conducted additional quantitative and qualitative research on the top 50 businesses in the Stengel Study with teams at Millward Brown Optimor and the UCLA Anderson Graduate School of Management, reverse-engineering how these companies work to see what they have in common. We saw that great businesses have great ideals.

Equally important, we found that the leaders of these businesses follow common practices, each in their unique style. We found today's most effective business leaders:

- Discover a brand ideal of improving people's lives in one of five fields of fundamental human values.
- Build their organizational culture around the brand ideal.
- Communicate the brand ideal to engage employees and customers.
- Deliver a near-ideal customer experience.
- Evaluate their progress and people against the brand ideal.

I'll open up these activities—the crucial imperatives for twenty-first-century business success—in detail in subsequent chapters. As part of the research for this book, I conducted "deep dive" observational visits and interviews with senior executives at a variety of category-leading businesses—Method, Discovery Communications, Pampers, Innocent, Jack Daniel's, Zappos, Visa, HP, Motorola Solutions, Lindt, and IBM, among others—and you'll hear directly from these executives about the role that ideals play in their long-term strategies, their business models, and their daily leadership practices.

In what follows I'm going to show you how to unleash the hidden power of ideals in every part of your business. You'll see how you can track the benefits quantitatively to top- and bottom-line growth, and qualitatively to increased employee morale and productivity and increased customer satisfaction, loyalty, and advocacy for your business.

Ready?

Let's start with a close look at the Stengel Study of Business Growth, its methodology and findings, and its implications for your business and career.