



Blueprint for Mega Growth Success

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There is an insatiable thirst in our industry for size. For decades, small family companies dominated the petroleum industry providing outstanding service to local customers with a high degree of intimacy and relationship. But now, industry media is filled with merger announcements. My own company is helping many petroleum companies buy, sell and merge. Some previously small family companies are morphing into regional and national powerhouses. Will they succeed? What can be learned about mega growth success and failure from industries outside petroleum?

In groundbreaking research just released, David Thomson, a former technology executive and management consultant provided the blueprint for mega growth success by studying what it takes to go from small company start-up to a billion dollar company. He created the blueprint through intense number crunching analysis of 7,454 American companies that went public after 1980. The findings have profound implications for any petroleum company bent on mega growth success.

Out of 7,454 companies studied by Thomson, 25% went out of business, and only a mere 387 (5%) of them reached the billion-dollar revenue mark. Remarkably, those same 5% accounted for 50% of the job count for the entire group. These are the blueprint companies. And for the few that rise to the top, success has its rewards. Stock in these high growth companies outpaced the S&P 500 *six-fold* just in the period from 2000 through 2005.

So what does it take? Through careful study, Thomson identified seven drivers of mega growth success.

1. Create and Sustain a Breakthrough Value Proposition. In an industry where fuel is fuel, how do you create breakthrough success? That's what Starbuck executives grappled with where we all know that coffee is not just coffee. High growth companies sell emotional benefits, not just products. Take for example blueprint company The Cheesecake Factory. In 1978, CEO and Founder David Overton was simply looking for an outlet for his parent's struggling cheesecake bakery when he opened his first restaurant. The company went public in 1992 with \$52 million in sales and racked up \$1.1 billion in sales at 111 restaurants in 30 states by 2005. How? With

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larger-than-life portions and gaudy theatrical flair. And, all of this achieved with little or no advertising.

Action Item: Knowing that high growth takes a breakthrough value proposition, I personally challenge you to think through your company's uniqueness in an industry where sameness and standardization rule. Know exactly how you will stand out from the rest of the industry.

2. Exploit a High Growth Market. Huge growth companies exist in virtually every industry. And frankly, the gasoline industry is already such a huge marketplace that few in our business should have any concern over ability to reach a billion in sales. Ameritrade is an interesting example of a company seeing and grabbing a huge market. Although they officially entered the discount brokerage market in 1975, it was visioning the potential online market that became key to expansion in 1995, allowing the company to go public in 1997 on revenues of \$73.8 million. After recovering from the dot.com implosion, the company earned \$340 million on \$1 billion in sales in 2005, something they would not have achieved without expanding what they “saw” as their marketplace.

Action item: Determine how far your geographic reach needs to go. Define the growth trends in your target market. Start by concretely knowing the total market for your product mix, something easily available through good demographic firms like IMST (www.imstcorp.com). Challenge yourself to examine and reset your definition of your marketplace.

3. Focus Relentlessly on Cash Flow – Successful high growth companies know the difference between growing sales revenue, growing profit, and growing cash flow. Of the three, cash flow takes center stage. Blueprint companies are characterized by funding growth through operations, not through huge capital investment at start-up (other than biotech and telecommunications that require large upfront capital). Most of the blueprint companies were founded on a shoestring, just the opposite of so many money-infused start-ups that flare and burn into extinguishment. Will our industry have some that flare and burn? My guess is we will not be immune.

Already the wall street types who believe in a sequence of get a pile of press, get a pile of money, then get a pile of customers are knocking on family doors. Blueprint companies actually succeed in reverse order – they start with customers, sales that create internal cash flow and then finally go to the press with their success. Real live customers finance operations until the company gets to the IPO (Initial Public Offering) size. Even after the IPO, they relentlessly pursue positive operational cash flow.

Action item: Invest in top-quality, industry-specific cash flow education. Meridian's Focus on Competitive Advantage seminar (offered spring and fall each year) provides high ROI cash flow education for petroleum industry management personnel. Call 800-728-9005.

4. Leverage Big Brother Alliances – Blueprint companies attract great customers with high profiles and reputations that open doors to new markets. Think the little fish landing the whale. For instance, blueprint software company Cerner was just a small hospital management

software company until Mayo Clinic took a huge risk with this relatively small little known, but technologically advanced company. Mayo realized it needed an integrated technology solution in their booming industry with shrinking insurance reimbursements and skyrocketing costs. Their choice was to spend \$16 million with a relatively obscure vendor. The risk paid off. After five years of start-up, Mayo is realizing between \$3 and \$7 million annually in savings and having instantaneous access to all their medical data. The relationship with Mayo then made it easy for Cerner to land other customers.

Action Item: Determine the “whale” in your marketplace that has the potential to push you to be a better supplier and open doors to new customers.

5. Pack Your Board With Industry Experts – In the petroleum business, few companies have boards that go beyond family members and a few trusted professionals or friends. Blueprint companies, however, do not pack their boards with insiders who simply want to keep an eye on the cash. Instead, they choose successful CEOs from outside industries plus industry experts who offer deep experience, help bring in business and give shrewd business advice.

Action Item: If you do not have an outside advisory board, and you are serious about growth, act now. Develop a list of potential high power board members, then stock your board with the best. They will drive you to achieve more than you knew even possible. That’s value.

6. Use Blue-Chip Customers to Gain Credibility - Closer to our industry is the blueprint company Headwaters, an alternative energy provider that was struggling to sell its patented synthetic coal technology to electric companies until latching itself to Dow Chemical. In 1999, Headwaters had lost \$28.4 million on revenues of only \$6.7 million, but with the Dow relationship, increased its net cash on operations to \$151 million on revenues of \$1.1 billion in 2005.

Action Item: Within your marketplace, identify potential blue-chip customers, create an action plan for landing them as a customer, then launch a campaign to leverage that relationship.

7. Build an Inside-Outside Leadership Team. At blueprint companies, Thomson consistently saw two-person leadership teams. One leader was great with “outsiders” including customers, bankers, vendors and even media -- think high-charisma and charm. The other half of the leadership team was the “inside” person -- an expert in operational efficiency and cash flow. They watched the books like a hawk.

Action Item: As CEO, honestly assess whether you are the inside or outside person. Acknowledge that you can’t be all things to all people, much less be in two places at the same time. If you don’t have a counterpart, promote or hire one now.

In summary, growth doesn’t guarantee success. If your plan is for mega growth, use these seven mega success attributes as foundational truth. Through honest assessment and action, allow them to keep you from being part of the 95% that either miss the mark or can’t sustain their success; allow them to catapult you into the top 5%. Perhaps years from now, it will be your company that future MBAs will study in their business schools for greater insight on the exact formula for business success!