Opportunities for Action in Consumer Markets

Wanted: Leaders and Diagnosticians

The Boston Consulting Group
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It is hard to imagine a more difficult year—and a more trying business environment—than the one we’ve just come through. Terror. Market instability. Consumer fear. Rising world unemployment. Government spending without visible short-term results.

Now is a time for courage and rejuvenation. We need strong leaders and a redoubled resolution for investment, growth, and improved performance. It is time to take a lesson or two from the past. In the final installment of this year’s Opportunities for Action series, we want to turn again to history for perspective.

Great nations are born out of a sense of heroic invention. Similarly, each of our companies at birth carried with it a sense of invention. We came to work without preconceived notions. Every day was exciting. Every week offered new opportunities. Our recruiting was radical, often bringing in people with unusual skill and energy. The environment was chaotic, filled with trial by fire and the surprise of success. The effective leader provided vision, tenacity, and instinct, and made wise preemptive investments.

Unfortunately, companies often lose the characteristics that originally propelled them ahead. Professional managers replace the visionary founders, introducing formal processes and controls. Leaders lose the passion of their youth. They assume defensive positions to protect their legacy, and in so doing provide opportunities for rivals to breach their markets.

Established companies often see themselves as mature. They ignore or minimize outsider innovation. They
Exhibit 1. The Birth of an Empire

The Republic of Rome After Hannibal Was Repelled in 202 B.C.

Source: roman-empire.net, adapted with permission.

Exhibit 2. Rome Expands Through Organization, Infrastructure, and Leadership

The Empire at Caesar’s Death in 44 B.C.

Source: roman-empire.net, adapted with permission.
live by outdated and irreconcilable rules of thumb, and often their leadership appears awkward and indecisive. The leaders’ market antennae are often atrophied or destroyed.

Rejuvenators take mature companies to a new level. They make radical decisions. They ignore legacy rules and redefine a better future. They seek outside ideas and make them a source of organizational oxygen.

Rome as an Analogy for Business:
The Rise and Fall

The epic rise and fall of ancient Rome serves as a cautionary tale about creative spark dissipated by carelessness, arrogance, and inattention. If we could go back to the Roman Empire in 218 B.C., we would find the world to be a fearful place. Warring tribes use primitive and brutal means to plunder and enslave their enemies. People eat only what they can harvest, facing starvation in bad years on a diet of bread, water, and a trace of wine. It is a lawless world. Thomas Hobbes, the political historian, artfully captured it: “The life of man: solitary, poor, nasty, brutish, and short.”

In 202 B.C., the Romans repelled Hannibal and drove his elephant cavalry from the Italian peninsula. The victory over Hannibal removed Carthage as a threat. (See Exhibit 1.) What was Rome at that point? A loose alliance with a handful of principles that would ultimately carry it to world domination.

The Romans had a sense of unity and an imperative to create wealth and power, which held them together as a conquering people. The early Romans believed that they could conquer the Mediterranean region. Achieving improvements in productivity to create a surplus, they then used that surplus to provide Roman
Exhibit 3. Rome at Its Peak

The Empire in A.D. 192

Source: roman-empire.net, adapted with permission.

Exhibit 4. Outsiders Force Restructuring and Divestitures in the Face of Poor Management

The Final Boundaries at the Last Emperor’s Death in A.D. 476

Source: roman-empire.net, adapted with permission.
citizens with access to wealth and monuments of success. Ambition and organization were the foundations of that success.

For five centuries, the Romans lived by four principles: domain expertise, continuous invention, succession planning, and process engineering to deliver productivity advantage. These principles can form the basis of greater success for your company, too.

**Domain Expertise.** The Romans initially employed domain expertise in their military service. Although average life expectancy at the time was only 32 years, soldiers signed up in their teens for a full 20 years of service. That was considered the minimum amount of time to become a master archer, catapult operator, swordsman, or battlefield commander.

When they invaded north into what is now France and Germany, the Romans introduced precision, experience, training, discipline, technology, and expertise. At its peak, the Roman army was fixed at 28 legions, with a full legion consisting of approximately 5,000 men. The legions were based in the conquered territories and spread the “culture” of Rome. Each legion brought, on average, 50,000 man-years of experience and expertise to each engagement. No army in the world could beat the Romans on the battlefield. At the end of the 20-year term, surviving soldiers received a generous pension: land, money, and honors. Compare that 20-year term and depth of experience to the average time people spend in their jobs at your company.

**Continuous Invention.** The Romans defined this as product development engineering and application for technological advantage. Roman engineering was a marvel in its time. No one before had so fully understood the power of infrastructure in the form of water
supply and road construction. A safe water supply was the critical ingredient for building cities. Cities resulted in specialization and productivity increases. Productivity provided the surplus that gave Rome its ability to rule. Roads permitted quick deployment of troops for command and control.

The public monuments engineered by the Romans still stand throughout Europe and the Middle East. No competitor could match the Romans for speed in building bridges and siege-works. Behind the Roman army were the world’s first mass manufacturers—producers of helmets, armor, and weapons.

Roman technical skill was applied not only to large-scale construction projects—roads, aqueducts, and mines—but also to the manufacture of pottery, glassware, and other goods. The Romans created the first global consumer-goods supply chain: grain from Egypt, seafood from the southern Mediterranean, wine from France, and silk from the Middle East all made it regularly to the capital of the empire. The military-industrial complex’s need for innovations pulled technology forward. Profits were counted in the form of conquered territory and new tax revenue.

The Romans built according to a formula. Their hold on the provinces was secured by forts placed at every major point of control. Every fort in the empire had five major buildings: a grain storage facility, a bathhouse, a hospital, the commander’s house, and a barracks for the troops. That design allowed for scale, efficiency, and an experience curve benefit. (See Exhibits 2 and 3 for two views of the empire on the rise.)

Succession Planning. At the height of the Roman Empire, the emperor was not born to the role; he was chosen by the reigning emperor and “adopted.” The
most successful emperors-to-be also won buy-in from the military—a key constituency. The fittest successor benefited from a multiyear training program. The crowning years of the empire were marked by continuity of leadership that stretched from Caesar to Augustus to Tiberius. When Rome lost leadership continuity and military buy-in, it risked riots and civil wars.

The Roman army was legendary for its strength, resilience, and flexibility. Loyalty and organization were built around the legion. Ten eight-man squads formed a century. There were six centuries to a cohort and ten cohorts to a full legion. The attack plan was organized in three lines. The first line was for the youngest soldiers, who were fierce, reckless, and brave. The second line was for experienced troops. The third rank was for the reserves. Defensive tactics dominated. Each squad had a well-defined role in every engagement. Each soldier understood his specific responsibilities and was an expert with his weapon. He knew his place in the line, and he knew what role he would take in the event of casualties in combat.

Organizational dogma provided the recipe for leadership and victory. Consider these rules left by an early Roman general:

1. Feed and rest the troops before battle.
2. Work them into a rage against the foe.
3. Take advantage of height.
4. Defend on rough ground.
5. In battle, engage with the sun behind you.
6. Place the infantry in the center.
7. Ensure adequate reserves.
8. Concentrate force on breaking the enemy line.
10. Track down escapees with cavalry.

In their detailed manuals, the Roman leadership left little to chance.

**Process Engineering to Deliver Productivity Advantage.**

Roman engineers broke tasks down into their simplest elements and recrafted projects so that everyone could make a contribution. By developing a series of steps into a process, the Romans achieved higher levels of productivity and improved quality.

The Roman model of government favored the professional manager—an arrangement that capitalized on the manager’s experience and linked rewards to performance. At its height, Rome was managed by a cadre of fewer than 10,000 professional bureaucrats, chosen by merit, not patronage. The skills of the Roman machine were legendary, built around the need for long-range planning, logistics, campaign management, and infrastructure. Rome’s managers honed the skills required to conscript, feed, and equip the world’s largest army; collect progressive taxes; construct and transport weapons, building equipment, and other materials; and drive commerce.

At the peak of Roman influence, the emperor was highly visible, communicating with all citizens of the empire. The leader welcomed an honest confrontation with the truth. Virtuous, selfless behavior was rewarded. And the best emperors immediately responded to symptoms of trouble.
The Roman Empire created great wealth for those who served it. It was a very economically stratified society. The emperor Tiberius, the richest man in the first century, held an estate worth some $27 billion in real terms. Six men were ceded control of the whole African coast. This concentration of wealth permitted major capital projects, which further enhanced the strength and power of Rome.

Lessons from the Decline

There are, of course, many reasons for Rome’s fall. Common to all is the fact that the emperors lost touch with what made the empire great and enabled it to prosper. The number one cause in our view was that the emperor was shielded from the truth.

Government was concentrated in the bureaucracy. In the last two centuries of the empire, power was for sale. You could buy a judgeship or a posting. The number of bureaucrats increased from 10,000 to 30,000. Discipline in the army became lax. The emperor did not seek a true understanding of the state of the union. The advantage in technology declined as the army went from 96 percent Roman to 3 percent. Citizens no longer viewed service in the army as a duty. Power shifted to the provinces. A decline in productivity caused wealth to evaporate and opened the door to civil war. At the same time, the emperors became increasingly caught in the trappings of power. No longer was the emperor the “first among citizens”; instead, he became robed, distant, and godlike.

We offer you this list of warning signs from the history of the Roman Empire, which we believe are applicable to modern times:
Instability. Rome suffered from political scheming and the failure to concentrate on growth.

Fragility of Advantage. As the Roman army shrank to a local militia, Rome’s technology and scale became ineffective.

Lack of Strategic Reserves. Rome lived from year to year on annual crops and failed to provide mechanisms for savings. It also had no second line of defense beyond forts at the frontier.

Corruption. The behavior of Roman soldiers, officers, and public officials undercut edicts from headquarters.

Succession. Emperors began to be chosen by birth, not skill.

Few Impartial Metrics to Gauge Success. The Romans made no effort to maintain and balance productivity growth. They had few metrics to signal calamity before it spread, and they were willing to debase the currency.

In *The History of the Decline and Fall of the Roman Empire*, eighteenth-century historian Edward Gibbon brilliantly captured the empire’s decline around A.D. 476:

At the hour of midnight the Salerian gate was silently opened, and the inhabitants were awakened by the tremendous sound of the Gothic trumpet. Eleven hundred and sixty-three years after the foundation of Rome, the Imperial city, which had subdued and civilised so considerable a part of mankind, was delivered to the licentious fury of the tribes of Germany and Scythia. (See Exhibit 4.)
Empires can, of course, still be created today. Let’s look at The Home Depot, one of the world’s greatest retail empires.

**The Home Depot Rises in Two Decades**

It has been only 20 years since The Home Depot issued its IPO. The Home Depot’s empire was built on vision, courage, and economic advantage. Bernie Marcus, Arthur Blank, Ken Langone, and Pat Farrah devised the ultimate toy store for men, founded on a simple platform of lower prices, wider selection, and better, more knowledgeable service.

The Home Depot began as a chaotic, wild experiment. The first store’s crew worked 48 hours straight to meet the aggressive opening deadline. On opening day, traffic was sparse. Advertising in the *Atlanta Constitution* promising lower prices and vast selection did not appear when expected. Two days later, when the ads finally hit, customers jammed the store to buy ceiling fans at unheard-of prices as well as inexpensive shovels, lumber, and light bulbs. Customers flocked to the store to ask for advice and learn. Sales associates were graded on their willingness to go the extra mile for the customer. It was trial by fire.

The business’s proposition hinged on the conviction that The Home Depot would draw from a wider market and that lower prices would attract browsers as well as people interested in home-improvement projects. As a result, the chain would be able to buy direct and save in sourcing.

The do-it-yourself revolution that The Home Depot created for the United States was radical and risky in 1981. Like the early Romans, The Home Depot provided prosperity for its loyal troops. It also inspired
Exhibit 5. The Home Depot Creates the Do-It-Yourself Category

1979–1983

1979 sales: $0.007
1983 sales: $0.256
Ending market value: $0.658
Stores built: 19

Sources: BCG analysis; Home Depot annual reports.
Note: Dollar amounts are in billions.

Exhibit 6. The Home Depot Builds Infrastructure and Expands East and West

1984–1990

1984 sales: $0.43
1990 sales: $3.8
Ending market value: $4.6
Stores added: 126

• 1979–1983
• 1984–1990

Sources: BCG analysis; Home Depot annual reports.
Note: Dollar amounts are in billions.
passion among its customers. In two decades, the company has grown to more than 1,100 stores and $50 billion in revenues. Vanquished in The Home Depot’s wake are a variety of competitors: Builders Square, Hechinger’s, Rickel, Handy Dan (the founders’ former employer), Payless Cashways, and others. (See Exhibits 5 to 8.)

The Home Depot has created massive market value. In 1999, that value reached a peak of $158 billion. The Home Depot claims 1,000 millionaire employees among its ranks. This great business was built on an average of only $49 per transaction, a miserly 29.9 percent gross margin, and a 9.2 percent operating profit.

Comparing the Rise of Rome to The Home Depot’s Success

Like Rome, The Home Depot faces geographic limits (in its case, in the United States) as well as increasing competition, the mathematical burden of generating constant growth from an enormous base, and the challenge of maintaining the greatness of the founders’ vision without those founders.

The Roman Empire suffered the strain of constant warfare, complacency, and disunity. It had a natural boundary around the Mediterranean basin. Increasingly, in later years, barbarian tribes encroached on multiple fronts. The empire became too large to manage and too large to achieve unity.

The Home Depot faces many similar challenges today. One of the company’s keys to success was its initial hunger. The orange-aproned employee was urged never to lose a sale. Today the company has grown so large that it can no longer staff all of its stores with home improvement experts as it once did. The U.S.
Exhibit 7. Further Expansion Through Acquisitions and New Formats

- 1979–1983
- 1984–1990
- 1991–1999

1991 sales: $5.1
1999 sales: $38.4
Ending market value: $158
Stores added: 616

Sources: BCG analysis; Home Depot annual reports.
Note: Dollar amounts are in billions.

Exhibit 8. The Home Depot Has Expanded to 80 Percent of the Available Market

- 1979–1983
- 1984–1990
- 1991–1999
- 2000–2001

2000 sales: $45.8
Ending market value: $108
Stores added: 373

Sources: BCG analysis; Home Depot annual reports.
Note: Dollar amounts are in billions.
*As of November 14, 2001.
and Canadian markets are now largely served by The Home Depot and Lowe’s superstores. Increasingly, The Home Depot finds itself fighting competitors on multiple fronts. It is at a turning point: complacency and decline down one path, renewal down the other.

At the beginning of this year, new leadership was appointed at The Home Depot. In effect, a new emperor was crowned. Bob Nardelli’s challenge is to find growth, maintain momentum and spirit, and serve current customers well while continuing to expand. The Home Depot has announced that it will press to grow advantage in urban markets, delivered services, category extensions, and new locations. Nardelli brings experience and management talent from his years at industrial giant and financial-services legend General Electric. One of his biggest tests will be to take a fantastically successful company to the next level of success.

Motivating associates and recruiting talented people are probably the toughest challenges for The Home Depot and for all of us. Employees appropriately seek inspiration, recognition, mobility, and impact. As our companies grow, the leadership must maintain connections, clarity of purpose, and a continuous stream of intelligence. It must also retain talented employees and foster a culture of rewarding performance.

**Antennae Aimed and Ready to Receive External Input**

In our business world, if we are to defeat the enemies of success, we must challenge the prevailing wisdom. That requires us to gather new facts about consumers’ hopes and dreams, competitors’ threats, and our resulting options. It requires insight into the right path and interactions that mobilize the organization.
And, most important, it requires the courage to take on this challenge at the very peak of success.

Over the past ten years, many consumer packaged-goods and retail companies have created significant value by innovating, investing preemptively, improving early advantage, and picking the right successor at the right time.

Wal-Mart has created nearly $200 billion in shareholder value, and The Home Depot has generated more than $100 billion of wealth. PepsiCo has created more than $40 billion in wealth by focusing on and growing its beverage and snack food businesses, and by shedding its bottling operations and restaurants. Dayton Hudson Corporation, renamed Target Corporation, has generated $30 billion in wealth by abandoning its role as a leader in department stores and becoming a leader in upscale discount stores.

However, other companies have underperformed the market and remain stuck as “mature” businesses. Over the next ten years, will your company create value by allowing a great idea to mature or will it create value through rejuvenation?

Please make our year-end homily relevant to your business by considering these questions:

1. Can you check off the winning elements of Roman history and The Home Depot’s story that reside in your company?

2. Can you complete a diagnostic on your company, identifying the symptoms and likely causes of possible decline?

3. Can you describe and communicate your plan to halt any decline and return to a greatness based
on new sources of advantage and a cross-business, customer-centered view of your next opportunity for revolution?

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