<u>The BusinessWeek 50 Forum</u>

By Kris Hirschmann

An excerpt from an event summary written for BusinessWeek Events, a division of BusinessWeek Magazine

Welcome & Introduction

Launched in 1997, the BusinessWeek 50 is a ranking of the 50 highest-performing members of the prestigious S&P 500. This ranking seeks to identify companies that symbolize the best in Corporate America, both in operational performance and in their ability to convert that success into lucrative gains for shareholders. The 2004 list (published in BusinessWeek's April 5, 2004 issue) includes corporations representing myriad industries—from healthcare to home building, information technology to retailing, and much more.

What separates a BW50 company from the rest of the pack? It's much more than profit growth and shareholder returns. Seven years ago, when BusinessWeek set out to rank top performers, it wanted to capture both momentum and sustainability. So it came up with a 10-part formula that took into account key aspects of a company. The first gauges measure the obvious: sales and earnings growth. Both are tallied for the most recent 12-month period, but three-year growth is also factored in to reward managements that keep building on a great record. Also considered are net profit margins and return on equity to judge how efficiently each corporation manages its resources. And to better understand how investors perceive each company's results, BusinessWeek factors in shareholder returns for one- and three-year periods.

Once scores are obtained for these categories, they are weighted for sales volume. This is to acknowledge that it's easier to generate fast growth off a smaller base. And in 2003, BusinessWeek began factoring in the debt-to-capital ratio—a good measure for determining which companies are best positioned to make it through tough economic times. All of the results are then assembled into a detailed corporate report card for every S&P 500 representative. The top 50 performers earn spots on the annual BusinessWeek 50 list.

The depth of BusinessWeek's analysis makes the BW50 different from any other list of its kind. "The BusinessWeek 50 is far more than a static list of the year's biggest companies. It's a barometer of where growth, innovation, and value creation are happening," explained William P. Kupper, Jr., the magazine's president and publisher. "It is more indicative [than other lists] of enduring corporate excellence and profound economic trends. It is, in fact, a very powerful tool to which organizations can look to maximize their own performance over time. And I think that phrase—'over time'—is key. You are all in business for the long haul, as we are as well."

This year, BusinessWeek did more than simply publish a list of the top 50 performers. The magazine also took a good look beneath the surface criteria of the ranking, examining some less-obvious attributes of the winning companies. In doing so, it uncovered some curious facts. "Granted, our list is dominated by companies that were well-positioned to profit from the economic recovery. But scratch beneath the surface, and you'll find something more—namely, that many of this year's stars have a deeper understanding than rivals of what makes their customers tick." Also, "When these companies expand, it's less through debt-financed acquisitions than through well-planned diversifications around their core business…[and] some of this year's BW50 companies have consistently demonstrated an ability to cut costs and boost productivity by reengineering the ways they do business."

In short, the BW50 seem to be on to something good. What is this mysterious "something?" According to Kupper, it can be broken down into six distinct categories. "All of these companies had several common traits. Number one: Thinking like customers. Number two: Working better, faster, and more economically. Number three: Growing organically around their core businesses. Number four: Building innovative cultures. Number five: Creating power brands. And number six: Nurturing top performers."

So winning traits can be defined. But can they be distilled and passed on? Doing so was the goal of the BusinessWeek 50 Forum, which was held on Thursday, October 7th in New York City. This invitation-only event brought together 100 senior executives from S&P 500 companies to examine performance, discuss strategies, and meet and learn from leaders of BusinessWeek 50 companies. The result was a day of lively discussion and learning that showed a group of already high performers how to achieve even greater heights.

Thinking Like Customers

Many of the 2004 BusinessWeek 50 companies have a deeper understanding than their rivals of their customers' wants and needs. Using this knowledge, these companies often offer better product and service mixes marketed to targeted customers at compelling prices, thereby gaining an important competitive advantage.

Wellpoint (#3, BusinessWeek 50, 2004) is one company that has perfected this art. How? "We came up with hybrid products and we made them available in different ways so people could choose among different products," said Leonard D. Schaeffer, chairman and CEO of WellPoint. To do this, "We had to understand that healthcare is not just about science and economics. It is the intersection of all kinds of subjective feelings we have about ourselves, our families, and our futures. It's also very tied up with religious, ethical, and moral beliefs. We needed to understand those values and belief systems so we could develop a customized product. We also needed to understand what motivates different people to buy insurance. And to do that, we had to have a much more behavioral focus, to look at demographics."

To illustrate his point, Schaeffer discussed the tricky problem of selling health insurance to young adults, a notoriously underinsured group. "How could we find out what's motivating these people? Traditional methods like demographic analyses weren't getting us very far, so we hired a cultural anthropologist to follow these folks around. What we learned is that young people feel invincible, and also that they think health insurance is very complicated. As a result, we built some products that are easy to understand, that are available online, and that have first-dollar coverage for what our young customers told us was important—dental, vision, and preventive care, for example—rather than what healthcare policy makers think is important. In essence, we dramatically changed our messaging and marketing for this demographic group, and it resulted in increased sales. Our youth package was introduced in November 2003, and it is now our fastest-selling individual product."

Schaeffer also pointed to WellPoint's employee makeup as a factor in effective customer care. "We learned early that if we want to understand our customer, we have to be like our customer. Well, in healthcare, women make almost all the decisions. Today, 44 percent of our board of directors are women, 60 percent of our supervisors are women, and 18 of our senior managers are women. So we focus on not just trying to understand our customers beyond the walls but on reflecting inside our company what is of concern to customers."

This degree of focus is essential in a world where healthcare is in a state of constant flux. "Today we are dramatically reconfiguring what we consider to be health and illness, and the result is higher cost and much higher expectations. We can easily be overwhelmed by that," said Schaeffer. "I think what we have to do is listen very carefully, through a variety of listening posts, to understand where our customers are. By listening posts, I mean that we record customer service calls; we listen to our agents and brokers, because they're out there talking to our customers every day; we have all sorts of advisory committees; we have nurse hotlines; we do healthcare surveys. You've got to use all of these methods and more to understand your customers. Put another way, we have to get as close as we can to our customer, understand how their needs and expectations change, and then change our company in tune with that." By taking positive steps to do so, WellPoint has consistently outperformed its rivals and solidified its position as the nation's second-largest publicly traded healthcare company.

WellPoint is not the only company, of course, that has discovered the value of sharply targeted programs and products. Many other organizations, including credit-card giant MBNA Corporation (#19, BusinessWeek 50, 2004) have capitalized on this philosophy to build remarkable success. "We built our company around a concept called affinity marketing," explained Bruce L. Hammonds, the company's president and CEO. "If you follow a sports team, if you're part of a professional association, if you have a close alliance with your college, it's very possible that you hold an MBNA card and don't even know it. We don't put our name prominently on the card. We believe that the customer is most interested in the group that they belong to, and when we do a mailing with that image on it, it distinguishes us from any other credit card company. We developed affinity marketing, and we totally dominate that business today."

Acquiring customers through targeted programs and products is not enough to guarantee long-term success, of course. Getting customers on board is merely the first step. To perform above and beyond the norm, companies must keep their existing customers happy. "Every company talks about customer satisfaction, but they don't reinforce it constantly. So we set up a series of things to reinforce it, day in and day out, throughout our company," explained Hammonds. "We tell our senior managers that they're there for one thing and one thing only: Make sure we've got the right people in place and make sure that we are setting up the right environment so our people feel good. Then those people will take care of the customers."

Hammonds further explained MBNA's customer-care philosophy by breaking it down into several components. "First, we have implemented a customer listening program. Every manager in our company spends at least four hours every month either talking to customers or doing customer listening. Second, we tell everyone in every way that the customer is our focus. For example, over every door in every MBNA facility are the words, 'Think of yourself as a customer.' We measure customer satisfaction every day, and we let our people know what we expect of them in regard to customer service. We also try to create an environment that encourages customer satisfaction. Things like good food in the café, daycare centers, and fitness centers make people feel good about the company and good about coming to work. And if they feel that way, they are going to take care of the customers."

Hammonds also emphasized the importance of hiring the right people. "If you hire the right kind of people with the right kind of attitude, they want to take care of customers. And once we hire these people, it is the job of the managers to treat them like *they* are customers. 'Treat your employees with great respect and fairness,' we tell our senior managers. They are there to manage the efforts of those people and to create the right environment so people can do the right job for the customer."

In summary, said Hammond, "Our entire company has been built around a dedication to customer satisfaction. Since 1982 we've grown from five people to, today, just under 30,000 people and assets of over $100 billion. If you ask me, 'What has been the most important thing to the success of MBNA?,' there's nothing even close to treating customers right—and you've got to hire the right people to get that done." By keeping a laser focus on customer satisfaction, MBNA has maintained a level of performance that few companies can emulate.

Creating Power Brands

In an ever-changing business environment, companies that ride the economic cycle upward can lose their pricing power overnight. But top-performing companies that have created auras around their brands seem to retain pricing power regardless of market fluctuations. Why? Perhaps it is because these companies are not so much selling products and services as lifestyle choices.

One of the undisputed champions of this approach is Starbucks Corporation (#25, BusinessWeek 50, 2004), which today is one of the world's most recognized brands. How did Starbucks create this enviable brand, and how does the company maintain it? Chairman and chief global strategist Howard D. Schultz was on hand to discuss the company's unparalleled success. "I think the equity of the Starbucks brand is based on the fact that we have become an extension of people's homes and work. There's a sense of community at Starbucks . . . Although we're selling coffee, it's much more than that. It's the experience. It's an opportunity to get away, to gather with friends or family or a coworker. Or it may be that private moment alone, where you have an opportunity to just regroup. And as a result of that, the equity of the brand has driven us to places that we never dreamed we could go."

This "it's-not-just-about-the-java" philosophy has helped Starbucks to expand its business far beyond the morning hours, which a mere 10 years ago was the only time consumers would buy coffee. "The stores were pretty much over by 11 a.m. So we had to invent other opportunities to leverage the cost structure, give us things to do in the afternoon and evening," explained Schultz. "One way we did this was to build out the largest footprint of wi-fi hotspots in the world. We now have almost 4,000 hot spots. This has created significant traffic during off periods; people bring their computers to Starbucks to read their e-mail or do work. In addition, we started creating unusual beverages that appeal to different day parts. The evolution of that was we started creating products for younger audiences. Frappuccino, for example, is a much younger-profile product than the classic café latte, cappuccino, or coffee." As a result of these efforts and others, Starbucks now does booming business at all hours. "The majority of our stores are now open until 10:00 or midnight, and some are open 24 hours," said Schultz.

Another example of Starbucks' willingness to focus on issues other than coffee sales is the company's well-publicized sense of social and environmental responsibility. Starbucks' print ads, in fact, are more likely to discuss conservation issues than coffee. It's an untraditional approach—but according to Schultz, it is an important part of the company's branding process. "We're living in a time right now where conventional marketing and advertising have to be balanced with a significant commitment to corporate responsibility. And the reason for that is that we're seeing a real change in consumer behavior. If there's parity in the marketplace, the customer is going to go to the place or the product or the service that speaks to them on an emotional level. And if you look at the success of Starbucks, both from a brand standpoint and the fact of customer frequency and loyalty, there's no question in our minds that one of the ways in which we have succeeded is creating trust in the marketplace. We have earned this trust not only because of the quality of our coffee, but also because of the values of the company . . . We believe very strongly that we want to both enhance long-term value for our shareholders *and* build a company with a conscience."

Starbucks does more than just tout its socially responsible values to the public. It also makes a point of living them internally. The company is famous for providing health insurance and other exceptional benefits to all of its 90,000 employees, including part-timers. This benevolence doesn't come cheap. Schultz estimates that by the end of 2006, Starbucks' health-insurance costs will exceed its coffee costs. But the goodwill generated by the company's generosity in this area and others may be priceless in a branding sense. "We want to exceed our employees' expectations so they'll exceed the expectations of our customers. We want them to be proud of what they're doing," explained Schultz. Further, "We spend a disproportionate amount of time on the cultural connections that we have with our people, recognizing the vital importance in what we do. We don't want the ubiquity of the company to drag it down. We don't want Starbucks to become pedestrian, we don't want to be in the transaction business. We want to be in the emotional connection business, and we can't do that unless we make emotional connections with our people first."

By any measure, this approach has worked. Launched as a chain in 1987, Starbucks today has close to 9,000 outlets worldwide and is opening an average of three new stores daily. In

Manhattan alone, the company operates nearly 200 storefronts. And this is nothing compared to where Schultz would like to take the Starbucks brand. “We’re not even approaching anything close to saturation,” he proclaimed. “We think the market is very, very large. These are the early days of the growth of the company.”

To support this position, Schultz highlighted the organization’s experience with overseas expansion. “One of the most gratifying aspects of the last few years has been the way in which Starbucks has been treated internationally. There are lots of naysayers and lots of cynics, just like there were in the U.S. early on. But the consumer responds in such a glowing, supportive fashion. We’ve brought coffee to Paris, to Greece, to Spain, to Vienna, to Turkey, to Japan, to China, and have been embraced. There are very few places, I think, if we look at the landscape of international markets, that we’re not going to be able to go.”

Speaking of growth, does Starbucks leverage its brand to build complementary products and services? Sometimes. “We’re constantly looking for ways in which we can take the Starbucks brand and surprise and delight our customers,” said Schultz. The company is currently producing a successful line of original music CDs, for example, that is sold through Starbucks outlets. The organization also scored a huge hit with its Starbucks prepaid debit card. “We had one of the largest successes in the financial services business in the last 10 years with this card. It transformed our business. Card purchases now account for almost 15 percent of all our transactions,” explained Schultz.

Starbucks expects to continue along this path: “We’ve just begun to leverage the equity of our brand in categories,” said Schultz. But great care will be taken to make sure each effort is targeted and appropriate. “The most important thing in building a brand and building loyalty with your customers is not to fracture that very fragile level of trust. What that means to us is that we must recognize we are a coffee company, first and foremost. Whatever we do has to be complementary to the relationship we have with our customers around that experience.” By sticking to its guns, Starbucks hopes to maintain its incredible level of performance indefinitely—and to build its brand even further. “We think we can become perhaps the most recognized and respected brand in the world over time,” said Schultz. Millions (soon to be billions?) of coffee aficionados around the globe certainly hope he’s right.