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Chapter 7

The 2% Company

Very few companies can excel at innovation and efficiency at the same time. Of the 2,500 public companies we analyzed, just 2% consistently outperform their peers on both growth and profitability during good *and* bad times. These “2% companies,” as we call them, are able to renew themselves in large part by driving innovation and efficiency simultaneously. All ambitious companies should, in our opinion, strive to become 2% companies – which are positioned to succeed over time and thrive during both turbulent and nonturbulent periods.

Being excellent at both exploration (new ideas and innovation) and exploitation (operational proficiency and efficiency) simultaneously is difficult because these activities are contradictory – they pull companies in different directions. They require different skills, different performance management, and an ability to drive success with different time perspectives. They are also potential traps, each in its own way. For example, pursuing too much innovation tempts companies to seek further change before they see the benefits of the initial change. Conversely, operational success today makes it more difficult to change and explore.

The 2% companies take varied approaches to exploration and exploitation and thus manifest themselves in different ways (Figure 7.1). Three examples:

- The fashion retailer Zara has developed “fast fashion” DNA that combines adaptive innovation and speed-to-store. Zara consistently taps into unpredictable changes in taste through excellence in design agility and fosters continuous improvements in efficiency through a very tight supply chain.
- Amazon is also a 2% company, but it manifests this status differently. Amazon has been visionary since its founding, rolling out a global marketplace for its expanding customer base. From the top, CEO Jeff Bezos constantly pushes for a culture of innovative thinking through his “day one” mantra, stressing how the company should never stop being a startup. In parallel, the global retailer is able to drive efficiency by building an ever-tighter customer insight, logistics, and delivery operation.
- Toyota is another 2% company, here manifested through a long-term quest to develop new products (such as hybrid engines) and new ways of using materials and by continuously improving its lean manufacturing system. By playing the long game, Toyota has shown that gradual improvements in quality and manufacturing can be combined with breakthrough innovation and industry shaping.