Growth Strategy

Growth Isn't the Only Way for Companies to Create Value

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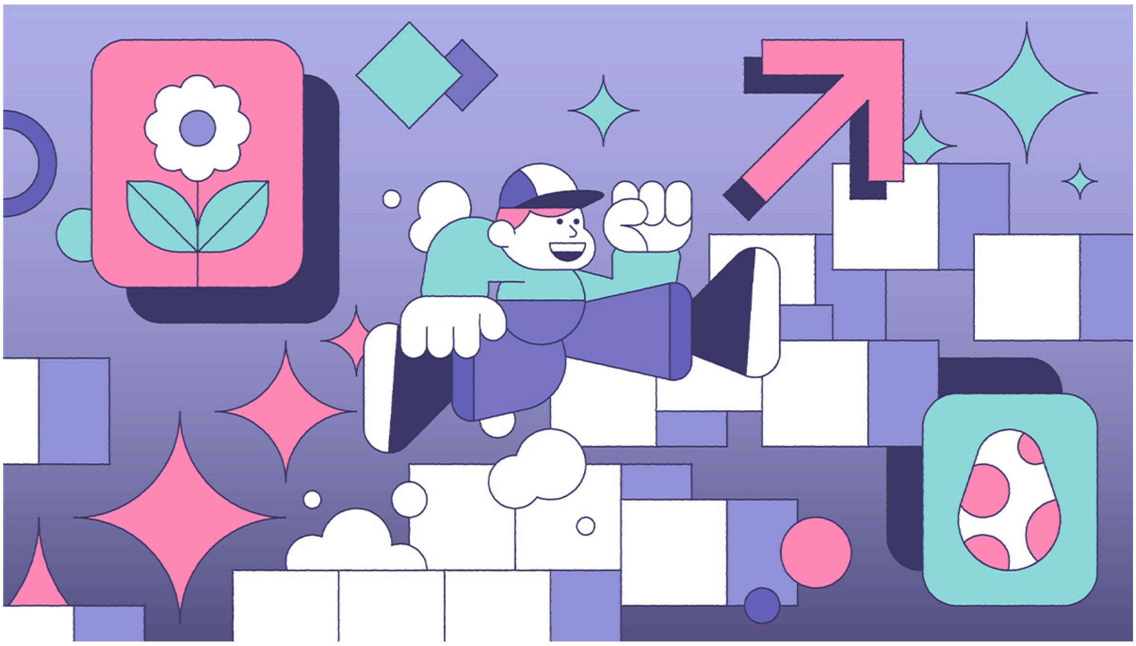

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Summary. In a world where growth is becoming increasingly elusive, companies can still create significant value by adopting a strategy of disciplined stability. By focusing on steady or only slowly growing revenues, businesses can achieve shareholder returns... **more**

It's a basic goal of most companies: to grow revenue each year. But as globalization recedes, populations in many nations grow older (and buy less), and sustainability concerns lead more people to scrutinize the necessity of every purchase, companies are facing headwinds to growth. And while growth can be a particularly powerful differentiator in such a challenging context, it is also particularly risky. Pushing for growth at all costs can end up destroying value rather than creating it, through wasteful investments and diverting resources from the core strengths of the firm.

The question thus arises: How can companies build lasting value without growth?

Stability Has Its Perks

To find answers, we studied more than 10,000 companies from North America, Europe, and Japan over the past 20 years. From that cohort, we identified 172 stable firms, defined by steady, near-zero revenue growth throughout the period.

These stable companies delivered shareholder returns similar to market averages, but at 12% lower volatility. This low volatility also correlates with both greater resilience and longevity: Stable firms were half as likely as the average firm to suffer severe value collapse by losing 90% or more of their market capitalization over the 20-year period we assessed. They are also nearly twice as old as the typical S&P 500 company, averaging almost 100 years of age. Finally, of these stable firms, 57 of them—one in three—managed to outperform the market in terms of total shareholder return (TSR).

If we take a closer look at those 57 companies that outperformed, our analysis reveals that these successful, stable companies do not conform to a single profile: They sell to both consumers and businesses, offer products as well as services, and appear across a wide range of industries (though less frequently in fast-growing sectors, where they can find themselves left behind by competitors).

Still, they share some notable similarities. For one, 25% of stable outperformers had an owner with a controlling interest, compared to less than 8% of companies in the S&P 1500—suggesting that a sense of ownership may play a role in enabling a disciplined, long term–oriented approach to value creation. This is consistent with the observation that stable firms steered clear of the risks that often accompany aggressive growth, such as overly ambitious, large-scale mergers or acquisitions, which have a failure rate of 70% to 75%.

Instead, these businesses used four distinct strategies to achieve outperformance in the absence of growth:

1. At Your Service: The Asset-Light Play

Many businesses facing low growth prospects react by seeking to acquire new customers—often at high cost—but stable outperformers are more likely to maximize value from existing customer relationships. They do this by shifting from physical products with declining demand to asset-light services and software. This approach not only deepens customer ties but also improves margins and lowers asset intensity.

The stable outperformers that made this shift increased their EBIT margins by 8 percentage points between 2004 and 2024 on average, driven by 50% lower capital expenditures and 25% lower cost of sales. This enabled them to also achieve an average annual TSR of 9%.

This path is most common in asset-heavy industries undergoing digital transformations or in IT companies becoming more service-oriented. More broadly, it may offer an interesting path for businesses facing commoditization or pressure from competitors.

A case in point is Siemens: In 2014, it announced an increased focus on software-as-a-service and digital twin technology. This move reflected a shift from traditional industrial conglomerate to digital industrial innovation leader, embedding software and data-driven services into its core offerings and creating more resilient revenue streams and deeper customer integration. We found that while pursuing this strategy over the past decade, Siemens achieved an annual TSR of 12%.

2. Take the High-End Road: The Gross Margin Play

Mature businesses are often tempted to rely on a strong brand image while cutting costs. However, enhancing quality can be a more sustainable path to value creation, enabling firms to establish a difficult-to-erode position and improve their gross margins.

The stable outperformers who "took the high-end road" increased their gross margin by, on average, 12 percentage points over the 20-year sample period. This enabled them to achieve an average annual TSR of 9%, driven mainly by margin expansion and a strong cash flow contribution.

While we observed this strategy most commonly among consumer businesses, it may be relevant to many companies operating within a niche—whether due to product uniqueness or specialized expertise. By becoming irreplaceable, these businesses can strengthen their pricing power and move upmarket, whether they produce luxury goods or industrial components.

For example, Morgan Advanced Materials, a UK-based manufacturer of ceramics and carbon materials, developed products with superior thermal resistance, electrical insulation, and mechanical strength to better serve its customers in sectors such as aerospace, semiconductors, and electric vehicles, where components must operate reliably under extreme conditions. We found that the company's superior products led to an improved pricing power, doubling its margins over the 20-year period, and achieving an annual TSR over 3% above the FTSE 100—while not growing revenues in real terms.

3. No Place Like In-House: The Balance Sheet Play

When revenue growth is out of reach, balance sheet expansion offers another alternative to create value. Stable outperformers often grow their asset base through vertical integration to control a larger share of the profit pool and increase their value added. This approach also helps them build a unique asset portfolio that strengthens their differentiated value propositions and competitive moats.

On average, the stable outperformers that followed this strategy doubled their total asset base as they vertically integrated. Their control of a larger share of the value chain enabled them to expand their gross margins by 8 percentage points on average throughout our period of observation. Their investments also yielded high returns: On average, firms following this strategy achieved an annual TSR of 9%, driven by a cash flow contribution of 5%.

This strategy is most prevalent in asset-intensive sectors such as industrials, utilities, and materials—but any business with an already-differentiated product and significant market share facing cost pressures from suppliers may find vertical integration a compelling path to value creation.

The hospitality industry offers a striking example. Unlike most hotel chains that franchise their brands to accelerate revenue growth, Whitbread, owner of the largest hotel brand in the UK, Premier Inn, owns all its hotels, directly manages their operations, and even controls digital distribution as well as revenue management by centralizing bookings on a proprietary platform. Although this integrated strategy constrains rapid expansion, consistently delivering a high-quality customer experience is an essential pillar of its competitive advantage—

which we found has enabled the company to deliver 10% annualized TSR over the past 20 years.

4. Take It to the Bank: The Dividend Play

Rather than aggressively pursuing growth, stable and mature companies often prioritize returning cash to their shareholders. However, without significant revenue growth, it can be challenging for these companies to meet dividend growth expectations, and therefore, to achieve high TSR. Our analysis identified an alternative strategy for value creation through dividends: providing consistent and predictable payouts that make their stocks behave like bonds.

This "bond-like" approach exhibited dividend volatility one standard deviation below the market average and offered investors greater stability and reduced risk, enabling these companies to outperform the market despite limited growth in revenues, margins, or dividends. These stable outperformers built financial slack, for example, by reducing their debt-to-equity ratios by 30% on average. In this way, they achieved not only a high and stable cash flow contribution to TSR but also enhanced their valuation multiples by an average of 3% per year.

This strategy can be observed in all industries and sectors but is most applicable for companies with predictable streams of revenues and little fluctuation in investment patterns. Take GATX, a railcar leasing company: It has paid out uninterrupted quarterly dividends since 1919. Over the last 20 years, the firm has not had a reduction in dividend payouts for a single year and has maintained dividend volatility 1.5 standard deviations below the average of our sample—driving annualized TSR of 12%, fueled almost entirely by cash flow contributions and multiple expansion.

What About Talent and Innovation?

Pursuing low growth-strategies does come with challenges. For one, growth typically means opportunity—for career progression, new skill development, and other means of advancement. If a company isn't actively growing, these opportunities may be more limited, which could make it challenging to attract and retain top talent.

To counter this, companies executing a low-growth approach must be intentional in how they design their talent strategy. Some of the companies in our study leverage their stability to invest in long-term initiatives and partnerships to attract and develop talent. These efforts might include targeted recruiting programs, apprenticeship opportunities focused on specialized skills, industry certifications, or partnerships with local educational institutions. Such channels build community ties and create a consistent stream of candidates.

For example, UK home builder Persimmon launched the Persimmon Academy in collaboration with local colleges to tap into overlooked labor markets in the regions where it operates. The program, which enables the company to access new talent, shape skill development to align with its business needs, and foster stronger engagement across its workforce, has recently been expanded to new regions after its initial success.

Beyond talent pipelines, stable companies can also foster long-term engagement by reimagining the employee value proposition —for example, by highlighting perks such as opportunities for horizontal rather than vertical mobility and focusing on job security, enabled by the reduced volatility of a low-growth strategy. This approach may be particularly appealing to younger workers, many of whom have spent their careers in economically uncertain environments.

For example, Mondelēz International's internal talent marketplace, Match & Grow, enables employees to take on shortterm projects beyond their usual roles or functions, gaining exposure to new experiences and collaborating with different teams. Since its launch in 2023, more than 25,000 employees have participated in the program.

Another potential challenge for low growth-companies is maintaining an innovative culture—one in which creativity and imagination thrive. Without such a culture, there is a risk that complacency sets in. Yet rather than chasing disruption or innovating to unlock new markets, many of the stable firms in our sample highlight the power of continuous, incremental improvements.

For example, Diageo introduced an innovation team that focuses on integrating emerging technologies and experiences to enhance their existing portfolio; this team developed the world's lightest whisky bottle for Johnnie Walker Blue Label, as well as an AI-powered virtual concierge that provides personalized cocktail and gift recommendations to consumers of its Seedlip brand.

Counterintuitively, constraints imposed by low growth can even become powerful catalysts for innovation. In fact, rapidly expanding companies sometimes purposefully introduce limitations to their use of resources to encourage creative problem-solving. Patagonia, for instance, has been growing at more than 9% per year (and is therefore not part of our sample), but it self-enforces strict sustainability standards that limit the materials used in making its products. By using only organic or recycled fabrics and by urging customers to purchase fewer items, Patagonia has developed pioneering programs like its famous repair and buyback initiatives, central to its value proposition.

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The strategies and success of stable outperformers show that growth is not the only path to value creation.

However, company leaders should bear in mind that, while the stable companies we identified could sustain outperformance over decades, their levers may be exhausted at some point: Margins cannot be increased beyond 100% and dividend volatility cannot fall below zero. Pursuing a strategy of stability does not absolve leaders from having to continue to explore and revisit growth opportunities as conditions evolve.

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