CHAPTER

1 The Lifeblood of Capitalism

Kraft Foods is one company that has enjoyed an incredible market-dominating ride. From its humble beginnings as a wholesale cheese business in Chicago in 1903, to its initial public offering (IPO) as a multibillion-dollar global company in 2001, the company that James L. Kraft started with horse-drawn delivery wagons has blossomed into the largest branded food and beverage company in North America, and the second largest in the world.

What North American home is without at least one of its many famous brands? From Velveeta, Maxwell House, Oscar Mayer, Nabisco, Philadelphia Cream Cheese, to Post cereals, walk through any supermarket in North America and you will see Kraft brands in almost every aisle. In fact, according to A.C. Nielsen, Kraft's brands can be found in more than 99 percent of all households in the United States.

Although market dominance is what every company desires, it does come with a unique set of challenges made possible by the capitalist society that created it. Ironically, Kraft's impressive dominance across a number of categories makes it harder for the Northfield, Illinois–based marketer to grow. In fact, six of Kraft's mega-brands generate more than $1 billion each in sales, commanding overwhelming market share leadership with little opportunity for significant increases in either volume or pricing.

After decades of robust growth, this $30 billion company is having a difficult time growing the top line at all. In fact, since 1995, Kraft Foods has more often delivered negative revenue growth than positive revenue growth on a year-over-year basis. The exception occurred when Philip Morris acquired Nabisco in 2001 and folded most of its assets into Kraft.

Long gone are the golden days of delivering consistent double-digit revenue growth, especially in the United States. Companies such as Kraft Foods might have reached the outer limits of their ability to generate substantive revenue gains from market share gains. For mature industries such as consumer-packaged goods, generating a 1 or 2 percent increase in revenue growth from year to year is becoming more the rule than the exception. When a company markets its vast portfolio of brands in more than 145 countries to billions of customers and dominates almost every category in which it competes, how much more cream cheese, cookies, and cereal can it sell?

Life and Death

When British economist Alfred Marshall first wrote about the concept of demand and supply in his 1890 book *Principles of Economics,* he made a profound observation about the life of a business and that of a human being. Each followed a strikingly similar path starting with birth, moving through growth, to maturity, and finally into decline, and ultimately death. In his words:

> A business firm grows and attains great strength, and afterwards perhaps stagnates and decays; and at the turning point there is a balancing or equilibrium of the forces of life and decay. And as we reach to the higher stages of our work, we shall need ever more and more to think of economic forces as resembling those which make a young man grow in strength until he reaches his prime; after which he gradually becomes stiff and inactive, till at last he sinks to make room for other and more vigorous life.

Lost, however, over the last century of extraordinary growth, is Marshall's observation that nothing lasts forever. Implied in his statement is that demand is also not immortal, regardless of endless price decreases. More than 100 years ago when Marshall first captured the essence of the law of demand and supply, there wasn't a whole lot to demand beyond the basic categories of food, clothing, and shelter. However, as the 20th century dawned, the arrival of the automobile, first in Europe and then in North America, signaled the start of a long and remarkable run for demand. At one time easily controlled by simple price adjustments, demand shows almost no sign of vitality today, and there is no evidence to suggest that it will change anytime soon.

As the 21st century dawned, there were more consumers in more countries consuming more products in more categories than at any other time in history. The events of the early part of the 20th century, including the introduction of mass production, helped make all products affordable not just for the rich, but for the growing number of people who were rapidly populating an entirely new group in the social strata between the rich and the working class: the middle class. The significant and concurrent conditions that allowed for such a unique growth dynamic were:

- Population growth.
- The development of thousands of new categories of products and services.
- The ability to rapidly communicate with an increasing number of consumers everywhere.

By the end of the 20th century, there was hardly a category that was not populated by all three major classes. Even the poor had cell phones, cars, houses, televisions, Play Stations, computers, and e-mail.

Not Just About Cheese

The lack of worldwide demand today is neither an indictment of corporations such as Kraft Foods nor the mature consumer packaged goods industry in which it competes. In fact, quite the opposite might be true. The folks at Kraft Foods might have done their jobs too well over the last 50 years, effectively hastening the onset of saturation by influencing as many people on the planet who can afford to do so to consume as much cream cheese, cookies, and cereal as they possibly can. With the universe of bagel noshers largely fixed, even some of the most successful marketers in the world can't convince them to increase their consumption of schmeers. Now, satiated consumers worldwide are increasingly saying, "No mas! Nicht mehr! No, I do not want fries with that!"

Countless corporations in dozens of industries across all sectors are flirting with flat or even shrinking year-over-year revenue growth. Even a decade of aggressive mergers and acquisitions has largely resulted in simply creating bigger corporations with little or no organic growth.

Obscured by the events of September 11, 2001 and the 2003 war in Iraq, is an underlying trend that has gone largely unnoticed over the last quarter-century: demand, and the rate of unit and revenue growth for corporations around the world, has gradually slowed to a trickle.

However, as the rate of revenue growth has dwindled, the global investment community's expectations for consistent earnings growth have intensified. A rigid and unrelenting demand for increased profit growth, in the absence of an accompanying boost in natural revenue, has created a mathematical dilemma that is sending some corporations on acquisition shopping sprees, many on the cost-cutting warpath, and others beyond the boundaries of ethical business behavior. The rash of financial fabrications involving high-profile public corporations certainly raised the specter of impropriety in the early years of this century. It also increased our awareness of the lengths to which corporations will go to deliver the level of earnings that Wall Street expects.

On the surface, this revenue problem seems imminently fixable. A stimulus package here, zero percent financing there, and we are magically back on the growth track. However, there are new fundamental symptoms that suggest otherwise. Although productivity gains have greatly helped in the delivery of earnings growth over the last decade, our ability to continue to increase output per worker is fading. Sometimes forgotten is the fact that revenue is the single most important element in generating earnings. Without revenue, there can be no earnings at all, and without a constant inflow of new revenue, the long-term prospect for delivering earnings growth in perpetuity for some of the most established and historically successful businesses in the world could be at risk.

World Population Growth

Many point to the billions of potential consumers in third-world countries that have yet to be exploited as the answer to every CEO's prayers. However, don't expect it to happen all at once. It's true that geographical expansion will bring growth to many corporations over the next 20 years, but it will happen at a much slower pace than many expect. For major corporations like the Coca-Cola Company, markets such as China are no longer new territory. Now more than 30 years after former U.S. President Richard Nixon's historic visit there in 1971, some corporations have already marketed to several generations of Chinese consumers.

Now layer on top of this the fact that the world's rate of population growth has been decreasing since the 1960s and you have a formula that suggests slow growth over a long period of time, not necessarily what an anxious and demanding Wall Street wants to hear. Figure 1-1 shows that world population growth rates have been in decline since 1963 and are projected to continue to decline until at least 2050. So although the world's population will continue to rise slowly, it will do so at an ever-decreasing rate—a rate that is currently a little more than 1 percent.

Similarly, U.S. population growth rates have also been in decline, but actually for a longer period of time. Driven by the baby boom in the 1950s, the rate of U.S. population growth peaked in the mid-1950s. Growth rates slid through the 1960s, 1970s, and 1980s, before making a minor comeback in the first half of the 1990s (see Figure 1-2).

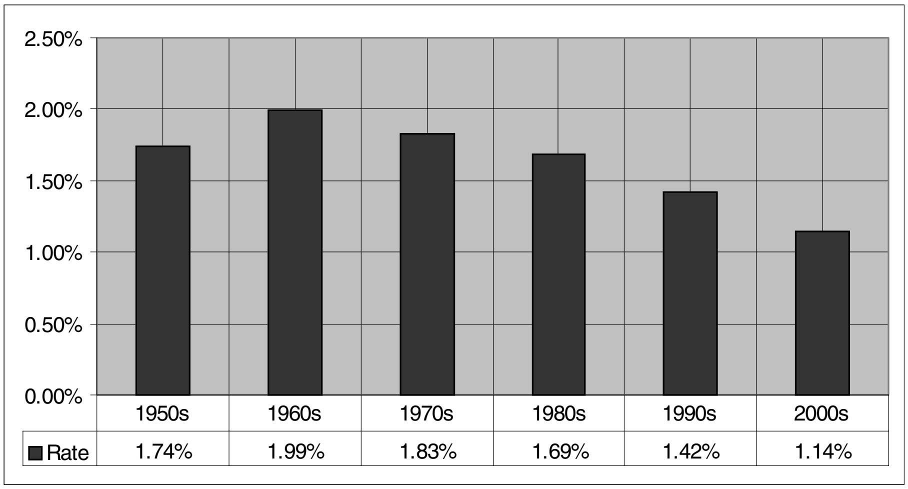

FIGURE 1-1 World population growth rates by decade. Source: U.S. Bureau of the Census.

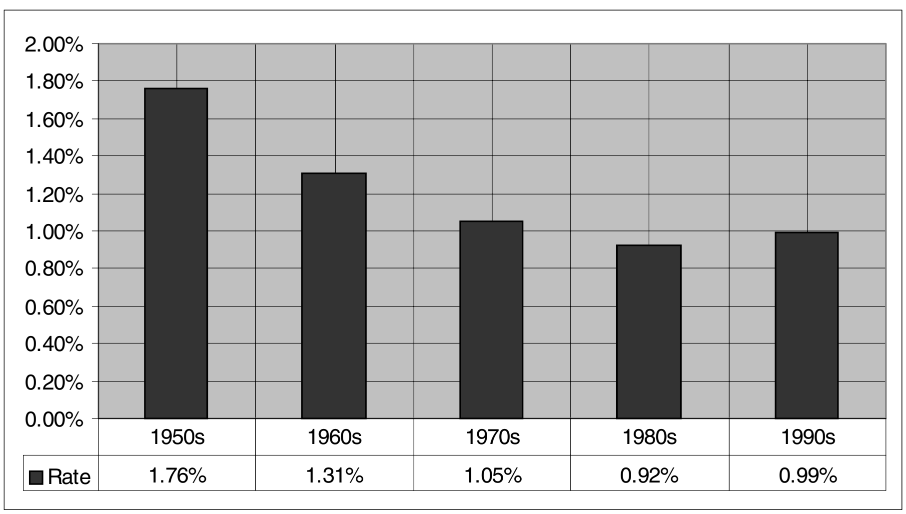

FIGURE 1-2 U.S. population growth, 1950 to 2000. Source: U.S. Bureau of the Census.

The *echo boom* that sociologists had anticipated when baby boomers became parents occurred later and was of a shorter duration than many expected. The reason was that many childbearing boomers delayed the start of their families until after spending a decade or two establishing their own professional careers. The delay resulted in many women over 40 having babies for the first time from 1990 to 1995. However, the population up-tick was short-lived, and since 1996, the population growth rate in the United States has been sliding once again.

Those who point to population growth as the savior to the world's demand woes will be disappointed that more consumers aren't being produced, and the rate of population growth is expected to continue to shrink for the balance of the 21st century. At least one of the major developed economic powers in the world will experience a population decrease over the next quarter of a century. Experts predict that not only will Japan's population shrink over the next 25 years, it will do so as citizens over the age of 65 outnumber those under the age of 15 for the first time ever. The implications of this shift are significant. As the number of people entering the workforce shrinks, a growing universe of retirees will live longer, consume less, and require a disproportionate amount of medical attention.

Although the population in the United States continues to grow, retirees also create a significant problem for the government, especially as the oldest baby boomers turn 65-years old beginning in 2011. This will be the first generation with a significant number of retirees relying primarily on voluntary 401(k) plans instead of full corporate pensions. Those investing in such plans have been greatly hurt by the stock market backslide since mid-2000, while others have simply chosen not to pay in to their 401(k) plans at all. Add to this the fact that for every two retiring boomers, only one new body will enter the workforce in the United States to help fund an already under-funded Social Security system. Cleary, we are headed for a nasty intersection of economic reality over the next 10 years that fundamentally has little to do with the stock market.

World's Largest GDPs Hurting

The issue at hand is one of global proportions and requires a radical rethinking of the business status quo. Consistent with a decline in the rate of population growth is the declining rate of growth for gross domestic product (GDP) figures around the world. Not unlike the United States, Japan has been a victim of its own success, emerging from the ashes of World War II and transforming itself into one of the world's most significant economies in a remarkably short period of time. But the slowdown in growth in recent years has created serious problems for Japan that is experiencing its worst economic crisis since World War II. According to Japanese officials, the primary culprit responsible for the slowdown has been sluggish sales. The government is considering instituting a permanent tax cut to bring some life back into the economy. However, such a move presumes a certain level of demand exists among consumers—an assumption that is no longer a sure bet in any of the world's developed nations.

The sustained and robust economic growth during the 1960s and 1970s created an expectation that growth was a post-World War II given in Japan, the United States, and Germany. All three countries continued to expand assets in order to continue to grow market share into the 1980s. Japan and the United States also fell victim to major diversification efforts when times were good, and a burgeoning top line could fund expansion and mask mistakes. However, as economic growth began to slow in the 1980s and 1990s, many of Japan's leading corporations sought to shed businesses in order to refocus on core competencies.

Japan's maturing auto industry, for example, has already started to experience the pain of consolidation—a certain preview of what is to come for stagnant U.S. automakers by 2010. Some believe that without earlier investment from U.S. corporations, under-performing Japanese automakers such as Isuzu (General Motors) and Mazda (Ford Motor Company) would have disappeared long ago.

The 12-nation Eurozone economy has been terribly weak in recent years, with growth projections in the 0 to 1 percent range from the European Central Bank for the near term, hardly robust. Germany's economy—the largest in the Eurozone—continues to struggle due, in part, to massive financial losses from the stock market crash there in 2002, which has greatly dampened investment activity.

From a macroeconomic perspective, the world's economy has been slowing for some time now. In the United States, real GDP has been growing at a steadily decreasing rate since the 1960s. The distractions of the day-to-day buzz that swirls around the business world often obscure the bigger picture, especially when the bigger picture is more often communicated in terms of cumulative dollars, euros, or yen as opposed to rates of growth.

When you step back and take a look at the economy—any economy—from 100,000 feet, the picture is quite different. No longer are we measuring in increments of days, weeks, months, and years, but decades, quarter-centuries, half-centuries, and centuries. Figure 1-3 shows that real GDP growth rates have been declining in the United States since the 1970s. That certainly is not the impression we have been given by the economic powers that be. More often we are served up statements like that of an MSNBC financial reporter who, when asked about the annual surge in sales during the holidays, proclaimed, "Holiday sales will always increase. They can never go down." Unfortunately, this is the prevailing perspective among those whose livelihoods revolve around the stock market.

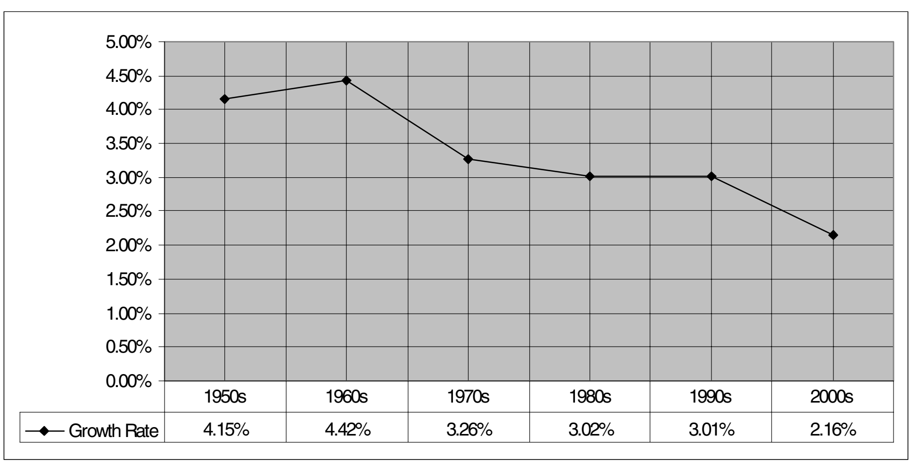

FIGURE 1-3 U.S. economy real GDP growth by decade, 1950s–2000s. Based on chained 1996 dollars. 2000s figure based on 2000, 2001, and 2002. Source: Bureau of Economic Analysis.

The United States' Congressional Budget Office issues a series of reports each year on the state of the budget and the economy. The purpose of these reports is to provide "impartial analysis" relating to all aspects of current and future budgets that fund national and local programs and services and are funded by taxpayers' dollars. In August 2003, the office issued a sobering report suggesting that, while the budget will work its way back into the black around 2012 and 2013, the overall deficit may during the same period reach a staggering $7 trillion—doubling the already record deficit levels of 2004. The practice of passing on such levels of debt to the next generation in an economy that is trending at an ever-decreasing rate of growth is extremely dangerous. Economic time bombs such as a growing universe of retirees who are living longer, and a sizable number who creep toward retirement with no pension and no voluntary 401(k) participation make the aggregation of debt today not only ill advised but irresponsible.

Keynesian economics had its time. Borrowing from the future works when the economy is growing at an increasing rate of growth—when aggregate demand is trending up. What would happen to the insurance industry if everyone entering the work force for the first time opted against life insurance? Without an inflow of new premiums it would be extraordinarily difficult to continue to pay claim obligations. The government is experiencing economic impotence due to saturation, unable to jump-start the economy through traditional monetary policies that usually work when demand has life.

The Basics

Over the course of the last 25 years, some have confused stock market performance with the actual operational performance and health of the corporations that are traded on Wall Street. More often than not, when graduates from the Class of 1990 and later are asked, "How's the company doing?" they respond with information about the corporation's stock performance: "It's up 2 percent this quarter." Without operational performance, it's difficult to see an appreciation in stock performance over the long term. Have we already forgotten about the dot-com debacle? Some have become so blinded by the prospect of building personal wealth that they forget that the operational performance of a corporation really comes down to three basic elements:

1. Costs
2. Revenue
3. Earnings

However, we don't always remember that these elements follow a natural progression: investment (costs), income (revenue), and profit (earnings). There are no earnings at all without revenue. When asked if the pace at which earnings are outgrowing revenues troubled her, one high-profile Wall Street analyst simply brushed off the question remarking, "Earnings have always grown faster than revenues." Obviously, she never launched a business.

The most frightening aspect of this statement was that she believed she was right. This dangerous perspective illustrates that we have effectively created two separate, often disconnected worlds: the world of Wall Street and the world of business. The connection between the two worlds has been reduced to a single number every three months—earnings—with little regard for the means taken to deliver those earnings. The lack of demand and, therefore, lack of revenue growth is causing corporations to take actions that they never had to before.

Dow component corporation Eastman Kodak is a good example. Caught in a rapidly changing industry, Kodak is essentially the same size it was a decade ago (about $13 billion in sales), but with about 40,000 fewer employees. It's been a tough decade for Kodak, as well as for the greater Rochester, New York area where the company is headquartered.

Rate of Growth: Trending Up or Down?

Someone once said, "No business ever stands still. It's either moving up or moving down." Because we are so intent at looking at business on a monthly, quarterly, and yearly basis, it is sometimes hard for us to spot trends that might be significant to the future of the business. Even though we can't feel that the earth is rotating, we know that it is in constant motion. Similarly, the rate of revenue growth for a corporation is always in motion, trending in one direction or the other. A corporation's rate of revenue growth is either trending up or trending down, especially if viewed over decades.

Obviously, when a company launches, its rate of revenue growth trends upward. For a period of time it experiences an increasing rate of growth, the period when the rate of revenue growth is in a consistent state of upward movement over a number of years. Corporations can spend decades in this phase, but as a rule of thumb, it usually lasts 20 to 30 years or less.

A decreasing rate of growth occurs when the rate of growth is in a consistent state of decline over a period of years. Although the corporation might still be expanding from year to year, its rate of revenue growth is trending on a downward path. Corporations can spend decades in this phase, fighting off negative growth through innovation and acquisition.

Of course, most corporations do continue to grow, but at a rate much slower than historical levels. In fact, the rate of revenue growth—one of the most important factors in generating long-term earnings growth—has consistently eroded for most established corporations over the last 25 years, reflecting the fact that there are natural limitations to growth for all businesses.

Never Looking Back

Even with the exploitation of more than one billion consumers in China on the horizon, there are only so many people on this planet and, according to recent population growth studies, we might be facing population shrinkage over the next decade. This is not good news for the corporations that rely on population growth for sales growth.

Because we rarely look back on results, especially results over decades, it becomes almost impossible to recognize the impact of a gradual erosion of revenue over a 50-year period. We have been trained to look ahead to next quarter or next year, so we generally explain away recessions as the result of temporary economic downturns and the impact of events such as September 11. However, a new study from Chicago-based Customer Share Group LLC suggests that the rate of revenue growth for many of the world's leading corporations has been sliding since the mid-1970s.

For the last five decades, management has been showing slides—and now Microsoft PowerPoint presentations—of a galloping top line that seems to defy gravity. Was Isaac Newton wrong? Is it possible that everything that goes up keeps going up? Figure 1-4 provides a view of collective revenue growth of the Dow Jones component corporations on a decade-by-decade basis since the 1950s.

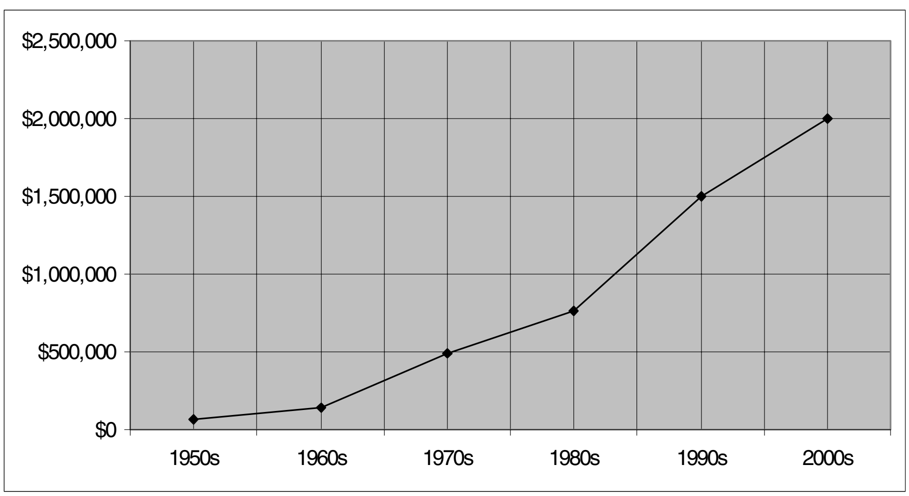

FIGURE 1-4 The Dow 30 total revenue by decade, 1950s–2000s, inflation-adjusted. (Millions U.S. dollars). Source: Moody's (Mergent) Industrial Manuals.

Figure 1-4 shows continuous upward movement in revenue, an ever-increasing stairway of sales that provides the corporate optimist with the good news that a board of directors wants to hear. Although actual revenue appears to be trending positively for the Dow 30, this view of revenue growth distorts the reality of the difficulty that corporations are experiencing in the trenches when trying to push the revenue line upward.

In many ways, this is the "glass half-full" perspective on revenue growth. The emperor appears to be fully clothed in new silky and colorful garments, yet you will see later on that some corporations have simply been unable to perpetuate this illusion.

The Inverted V

Using the very same data from Figure 1-4, Figure 1-5 provides a very different perspective, showing the steady rise in the rate of revenue growth for the 30 Dow component corporations as a group coming out of World War II. However, after approximately 25 years of steadily climbing growth rates through the 1950s, 1960s, and into the 1970s, this group, and most individual corporations, hit a wall in the 1970s when rates of growth peaked and started to decline.

The 1980s followed with truly disappointing revenue growth. After experiencing extraordinary growth during the 1970s, why would senior management expect that level of growth to subside? As the natural double-digit growth of the 1970s faded, the 1980s began to reflect an economy that was not only bigger and thus harder to grow, but also an economy that was made up of rapidly maturing industries. The 13.6 percent average rate of revenue growth from the 1970s gave way to a dramatic drop to an average 4.7 percent for the Dow 30 as a group during the 1980s.

A modest comeback in the 1990s was largely fueled by three temporary events:

- An echo boom population spike from older baby boomers.
- Extraordinarily aggressive mergers and acquisitions activity that added wholesale revenue gains to the top lines of corporations such as General Electric.

- The wholesale adoption of the Personal Computer both by businesses and by consumers, mostly driven by the advent of e-mail and the World Wide Web.

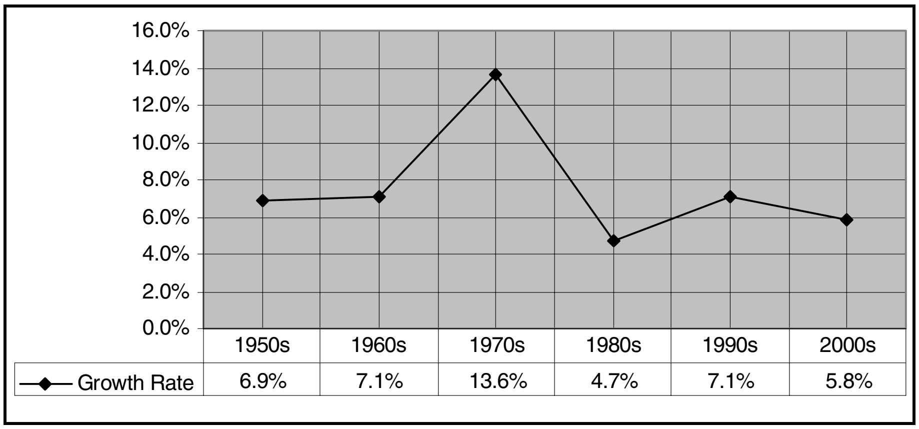

FIGURE 1-5 The Dow 30 average rate of revenue growth by decade, 1950s–2000s, inflation-adjusted. Source: Moody's (Mergent) Industrial Manuals.

However, the short-lived up-tick has given way to more sobering rates of growth. In many cases, we are witnessing the lowest growth rates in more than 50 years, and in the case of some corporate juggernauts such as young Dow component The Home Depot, negative growth rates for the first time ever.

Certainly, many corporations continue to grow, but at a rate much slower than historical levels. In fact, the rate of revenue growth, an important contributing factor in generating long-term earnings growth, has consistently eroded over the last 25 years. Though most corporations have been able to deliver acceptible earnings levels over this period, it's been aggressive cost-reduction and productivity gains that have made it possible.

Ebbing Tide

Drilling all the way down to the corporation level, it becomes clear that the building blocks that make up the economy's foundation are simply unable to generate the type of dynamic growth necessary to create upward movement. The chart in Figure1-6 shows that Procter & Gamble's rate of revenue growth actually stopped increasing and started decreasing in the 1970s. The significance is this: Procter & Gamble's extraordinarily expensive efforts to grow market share over the last quarter-century have certainly generated growth, but at an ever-decreasing rate. Most corporations that existed prior to 1950 follow a similar pattern of growth, so this is by no means unique to Procter & Gamble.

This chart provides a particularly jolting view of a trend that started nearly 30 years ago and shows no signs of a turnaround. The reason is simple: Procter & Gamble has effectively maximized its penetration in most of the categories in which it competes, and consumption levels within those categories have stabilized. Procter & Gamble has actually done a very good job of introducing new categories, even in recent years, which helps add entirely new revenue streams to the mix as opposed to simple line extensions that can often cannibalize core brands.

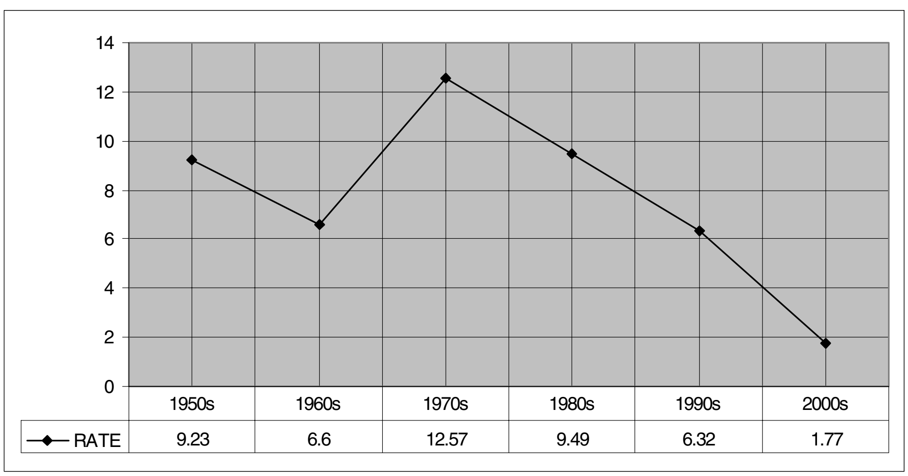

FIGURE 1-6 Procter & Gamble's rate of revenue growth by decade, 1950s–2000s, inflation-adjusted. All of its consumer product colleagues look relatively the same. Source: Moody's (Mergent) Industrial Manuals.

As the rate of revenue growth at many such large corporations has dwindled over the last quarter-century, Wall Street's expectations for consistent earnings growth have only intensified making life for the CEO of the maturing corporation in the 21st century much more than just challenging.

Negative Rate of Growth

Many corporations are already flirting with flat or even shrinking year-over-year revenue growth. The Dow 30, for example, has experienced a steady decline in their collective rate of revenue growth since the beginning of the 21st century.

The rate of revenue growth for the Dow 30 decreased eight straight quarters to kick off the 21st century. The troubling slide ultimately hit the trough when the group delivered negative revenue growth for three consecutive quarters for the first time since the Great Depression, posting negative numbers in Q3 2001 (–1.6%), Q4 2001 (–2.6%), and Q1 2002 (–1.5%). During this period, 60 percent of the Dow components reported negative year-over-year revenue growth, the worst collective performance for the Dow 30 in 70 years. The group finally rebounded in Q2 2002 with a meager 1 percent growth rate for the quarter.

This first-ever revenue recession for the blue chips underscores the fact that revenue growth is not only a serious issue, but also that some of the elements that drive an economy are simply tired and maxed out, simply unable to generate the steam they once did. Although their performance improved in 2002, Dow component corporations were still unable to beat prior-year revenue results 40 percent of the time. Is this a temporary soft spot, as U.S. Federal Reserve Chairman Alan Greenspan might characterize, or a more permanent issue of satisfied demand?

McDonald's: Not-So-Happy Meals

Dow component sibling McDonald's Corporation has also hit a wall. The world's largest restaurant chain, with more than 30,000 restaurants in 120 countries, announced its first-ever quarterly loss since going public in 1966, losing $343.9 million in the fourth quarter of 2002. The fast-food giant has had a tremendous run, but like so many other corporations that grew rapidly through the 1970s, even McDonald's can't keep expanding indefinitely. Its mega-aggressive expansion strategy had been averaging more than 1,700 new store openings a year. That's one every five hours! However, that strategy has been greatly adjusted. In fact, in 2003 more than 700 McDonald's restaurants closed and tore down the golden arches.

Vaunted 20th-century economist John Maynard Keynes believed that economic downturns were short-term phenomena that could be fixed. He believed that these downturns were driven by a short-term lack of demand and were merely temporary setbacks. However, much of Keynesian economic theory relied on future growth and, in many cases, borrowed from the future. Did Keynes ever consider the possibility of sapped demand, of saturation, and little or no future growth? That for every two retiring Boomers expecting to draw from Social Security there will be one new worker entering the workforce paying into Social Security?

The concept of more permanent saturation levels probably never occurred to economists down through the ages. Economic slowdowns have always been fixable: Lower the price and increase demand. However, even the Federal Reserve is finding that demand in the 21st century is difficult to ignite, and that deflation may be a real possibility.

All Sectors Have Hit the Wall

Look across all the major sectors of the economy and a clear trend has developed since the 1970s. The rate of growth for all major sectors of the economy has been decreasing for a quarter century—with the exception of technology. And today, not even technology is delivering the rate of growth that it once did. That's not to say there is no growth on a sector-by-sector basis. There certainly is, but it's being delivered at an ever-decreasing rate.

Figure 1-7 identifies the economy's major sectors, the industries that make up those sectors and a sampling of some of the leading corporations that make up the industries. It also shows the inflation-adjusted average collective growth rate of the listed corporations for the 1990s and for the first three years of the 2000s. What sectors are growing at increasing rates? What industries are growing at increasing rates? What corporations are growing at increasing rates?

- Some might say: *The business cycle is very resilient. We always bounce back.*

  That's because we look at economic performance in such small increments that it obscures our ability to identify long-term trends. A 25-year declining trend can be slowed, but it cannot be stopped. The theory that a corporation's performance follows the classic "S-curve" is a myth. The pattern of a corporation's rate of growth over the course of its life looks like an *inverted V.*

- Some might say: *We can be successful at a lower rate of growth.*

  Not forever, and not without a steady inflow of top line growth. There are limits to productivity, and to cost cutting. Also, a 25-year trend of declining revenue rates does not necessarily stop at 3 percent because we need it to. An average rate of growth measured over decades that was 5 percent and is now 3 percent is on its way down to 2 percent—not back up to 4 percent.

- Some might say: *That may be true for mature corporations, but not for us.*

  The definition of *mature* is certainly a relative term. If your company is more than 20 years old, then you are probably growing revenue at decreasing rates. Procter & Gamble's rate of revenue growth is decreasing—at 165+ years old, you would expect it to be. So is Microsoft's—and Microsoft's rate of decrease is occurring significantly faster than P & G's did. So are both companies mature?

SECTORS	INDUSTRIES	CORPORATIONS	AVERAGE RATE OF GROWTH 1990s	AVERAGE RATE OF GROWTH 2000s
Consumer staples	Beverages (alcoholic), beverages (nonalcoholic), tobacco, household products, personal care, food, food retailers	Anheuser-Busch, The Coca-Coca Company, Altria Group, Procter & Gamble, Gillette, General Mills, Safeway	4.98%	1.95%
Consumer cyclicals	Retail (general), retail (specialty), retail (specialty apparel), retail (department stores), retail (drugs), broadcasting, recreation, entertainment, automotive, publishing, restaurants, lodging, footwear	Wal-Mart, The Home Depot, The Gap, Federated, CVS, Disney, General Motors, Tribune, McDonalds, Hilton, Nike, Kodak	10.44%	7.73%
Technology	Software, hardware, networking, semiconductors, peripherals	Microsoft, Oracle, Cisco, Intel, Texas Instruments, Hewlett-Packard, IBM, Dell, Sun Microsystems, Apple, EMC	13.59%	3.67%
Communication	Telephone service, telephone equipment, cellular/wireless, long distance	Verizon, Bell South, SBC, Qualcomm, Motorola, Alltel, AT&T Wireless, Nextel, AT&T, Sprint	12.53%	1.53%
Health care	Pharmaceuticals, biotechnology, medical products, managed health care	Pfizer, Johnson & Johnson, Eli Lilly, Merck, Wyeth, Schering-Plough, Genentech, Genzyme, Medtronic, Health Management	14.30%	9.82%

Financial	Money center, regional banks, insurance, diversified, investment banking/brokerage	Citigroup, Bank of America, MBNA, JP Morgan Chase, Wells Fargo, AIG, American Express, Merrill Lynch, Morgan Stanley, Charles Schwab	22.64%	5.37%
Energy	Oil, oil drilling	Exxon/Mobil, Chevron Texaco, Conoco Phillips, Halliburton, Schlumberger, Baker Hughes, Occidental Petroleum	2.21%	–0.39%
Utilities	Electric, gas, water	Southern, FPL, PG&E, Exelon, Consolidated Edison, Entergy, Dominion Resources, Progress Energy	7.48%	6.39%
Basic materials	Chemicals, paper and forest, aluminum	Dupont, Dow Chemical, International Paper, Alcoa, Weyerhauser, Praxair, Air Products	7.53%	4.69%
Transport	Air freight, railroads, airlines	Federal Express, UPS, Union Pacific, CSX, Burlington Northern, AMR, Southwest, Delta, Roadway	5.08%	2.44%
Capital goods	Electric equipment, aerospace, manufacturing	GE, Honeywell, Emerson, Rockwell, United Technologies, Lockheed Martin, 3M, Boeing	9.84%	1.92%

FIGURE 1-7 Where's the growth? What industries are capable of energizing the economy? Source: SEC Filings, *Moody's (Mergent) Industrial Manuals*.

- Some might say: *The sky is not falling.*

  No it's not, but we are tracking on a collision course that has a mathematical certainty of failure unless we take action now. All corporations in all industries in all sectors are moving on a continuum toward saturation. Why? Because that is the natural destination for intelligent, ambitious, creative, hungry societies whose goal is to convince consumers to consume at maximum levels.

What is the significance of a slide that has trended down for more than 25 years? From a long-term perspective, growth rates will never trend up again. Certainly, there will be up years and down years, but from a trending standpoint, increasing rates of growth are a thing of the past for most industries. So simply rubbing the bottle and expecting the genie to deliver increased consumption is a naïve notion.

The perception that only those *mature* corporations are having difficulty growing is also a naïve notion. Just ask the folks at McDonald's, Intel, Hewlett-Packard, and The Home Depot. If your company is more than 20 years old, it is probably already past the top. This is the reality of the *business life cycle*: a one-time journey through *Birth* followed by *Growth* followed by *Maturity* followed by *Decline* and ultimately *Death*. And, ironically, the better we are at our jobs, the faster we move through these five phases.

A close look at the major sectors and more than 50 major industries suggests that many components of the current economy resemble Alfred Marshall's 1890 description of *a young man who, after reaching his prime, gradually becomes stiff and inactive, until at last he sinks to make room for other more vigorous life.*

The overwhelming majority of industries identified in Figure 1-7 have already seen their best days relative to top-line growth. Most of the sectors identified here are a century or more old, from consumer staples and telecommunications to capital goods and transport. To be sure, these sectors continue to grow, but at ever-decreasing rates. All of the sectors have seen the introduction of a number of discontinuous innovations over the last century, such as the introduction of the airplane to the transport sector, television to the consumer cyclicals sector, and penicillin to the health care sector. Even so, these sectors are very large and quite mature having reached a level of saturation decades ago. Now they grind forward with less and less momentum, increasingly the victims of more and more cost scrutiny.

The health care sector, viewed by some as the next great economy driver, does appear to have the best potential for near-term robust growth among all existing sectors. This sector enjoys a very unique dynamic that most other sectors do not: industries such as pharmaceuticals and biotechnology are essentially in the business of developing discontinuous innovations; that is, categories of products (drugs and biological remedies) that never existed before. Most other industries focus on improving a single innovation such as the automobile.

Even though the pharmaceutical industry can be traced back thousands of years, it continues to grow at very healthy rates because of constant introduction of new categories of drugs. Another unique element that also helps the industry plow forward, often at double-digit rates, is that not all new drugs replace other existing drugs. This is why the overall universe of medications grows each year, resulting in more patients consuming more drugs. Even though a medication might have been discovered decades ago, it could still be the popular choice of a physician today.

This unique dynamic—one that is funded with the constant development of new categories of drugs—actually makes for a powerful business model that creates the potential for explosive and sustained growth.

The sister industry of biotechnology, also with roots thousands of years in the past, appears to be the only industry today with a rate of revenue growth that is on the rise and has yet to hit the top. However, the fledgling industry has far to go if it is expected to greatly impact its sector and ultimately the economy. Currently, the largest 20 public biotechnology firms collectively are about the same size as The Coca-Cola

Company—around $20 billion. With U.S. GDP approaching $10 trillion, the top 20 biotechnology firms would have to quintuple in size just to reach 1 percent of the U.S. GDP.

Although pharmaceuticals and biotechnology are strong growth engines within the health care sector, it is extraordinarily difficult for just one or two dynamically growing industries to have an impact on an economy that has grown so large.

Even Technology Has Seen Its Best Days

Even the youngest sector of all—technology—is in decline. It wasn't long ago when there was no technology sector, when technology essentially amounted to room-sized IBM mainframes. Then the computer found its way first onto the desktops of businesses around the world, and then to the desktops of consumers around the world. Technology experienced the fastest rise to innovation saturation of any sector in history. The technology sector's meteoric rise lasted only about 20 years while the rate of revenue increased during the widespread adoption phase. After a glorious run up, technology had joined most other sectors, growing at ever-decreasing rates by the late 1990s.

If you think that the technology sector as we now know it will generate enough juice to drive the economy as it has for much of the last 20 years, think again. Technology has already experienced its golden years of growth, with historically high rates of growth behind it. Hewlett-Packard delivered double-digit growth in 2002 due largely to its acquisition of Compaq, yet for the second consecutive year lost money. Revenues for IBM and Intel have screeched to a halt and have mostly been flat or down since the turn of the century.

Even industry leader Microsoft, although hugely profitable, has seen its rate of revenue growth slide from growth rates beyond 50 percent per year to mere mortal rates in the high single digits in 2003, as shown in Figure 1-8.

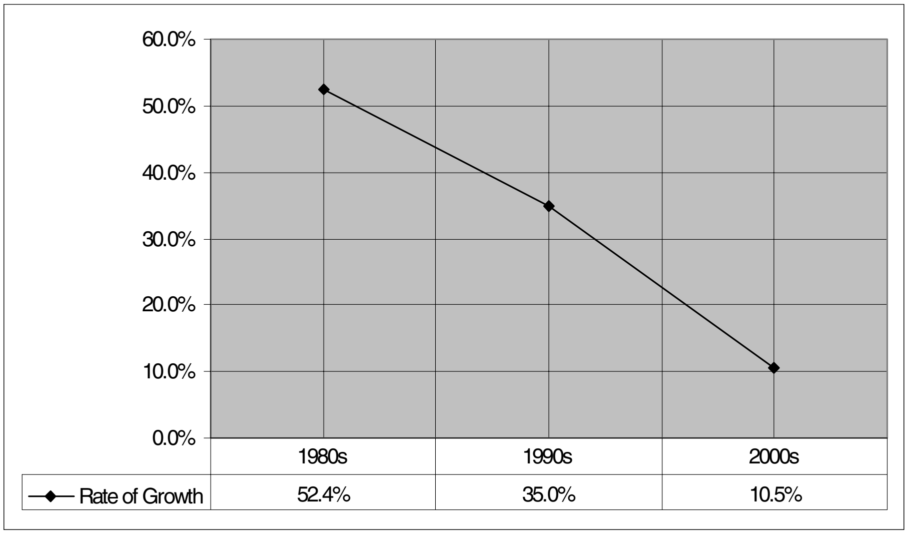

FIGURE 1-8 Microsoft Corporation's average rate of revenue growth, 1980s–2000s. Source: Moody's (Mergent) Industrial Manuals, SEC filings.

Herein lies the truly significant problem for the world economy: *There is currently no sector experiencing the growth rates necessary to drive any economy.* Similarly, even though there are several robust industries growing at dynamic rates, the relative size of those industries, such as biotechnology, is simply not yet big enough to impact the world's economy, or even an individual country's economy.

Coming out of World War II, most existing industries experienced burgeoning rates of revenue growth through the 1970s. Then, as the major industries' respective rates of revenue growth began to mature, technology arrived in a big way with the introduction of the personal computer circa 1978. In many ways, technology served as the savior for the U.S. economy over the last 25 years of the 20th century generating new spending from both individuals and corporations that had entirely new categories of products to buy.

Now the question is this: As the robust growth that we've experienced in technology fades, what sector can provide the energy to keep the economy moving onward and upward? While technology was there in the 1980s to add new growth to a maturing economy, it is unclear whether another savior sector is on the horizon and capable of providing new growth.

The Shrinking Big Three

Few industries reflect the overall health of an economy more than the auto industry. If car and truck sales in the United States since 1999 are any indication, we might be reaching fundamental limits in the number of cars that are bought each year. The erosion of sales and market share among the Big Three U.S. automakers has always been directly linked to the success of Asian imports since the 1970s. Although losing market share has always been troubling to the Big Three (Ford, Daimler-Chrysler, and General Motors), at least the overall universe of unit car sales in the United States was growing each year. Losing share when the overall pie was getting bigger was bad enough, but losing share when the pie is getting smaller has inflicted a much deeper hurt on the Big Three—one that they all are unlikely to survive.

The rate of growth of total U.S. retail car and truck sales has been trending down since the late 1980s. Although total U.S. retail car and truck sales hit an all-time high of 17.8 million units in 2000, actual unit sales declined three years in a row in 2001, 2002, and 2003.

The Big Three accounted for more than their share of the overall shortfall in sales. The Big Three sold half a million fewer cars in 2002 versus 2001, giving up 1.6 percentage points in market share to the competition. General Motors used liberal financing tactics (e.g., zero-percent financing) to gain back some of the ground it lost during the first 11 months of the year. Even a whopping 36 percent increase in December 2002 sales did not help the top automaker avoid a sales shortfall for full year 2002 versus 2001.

The woes of the Ford Motor Company also continued in 2002 when Ford sold fewer cars and trucks in the United States than it did a full decade earlier. U.S. car and truck sales for Ford slumped to 3.6 million units in 2002, fewer than the 3.7 million units sold in 1993 when the Ford family of cars did not yet include sales from Volvo and Land Rover. With little pricing power due to fierce competition from both domestic cars and imports, there is no making up for the loss in volume with price increases.

Each of the Big Three moved surprisingly fast through new contract negotiations with the United Auto Workers (UAW) union in September 2003. Within days of signing a new four-year contract, all three automakers received union approval to close or sell plants and other operations that would impact close to 12,000 autoworkers, something that the three were unable to do under the terms of the last contract. Though the cost structures of the Big Three have historically trailed Japanese automakers in efficiency, this move also suggests that supply was significantly disconnected from demand, especially after 2000 when inventory levels at many dealerships reached record high levels. Detroit's first three-year losing streak since the inflationary 1970s is a very bad sign for both the industry and the economy.

A Chicken in Every Pot and a Car for Everyone. When candidate Herbert Hoover campaigned for the U.S. presidency in 1928, his message to voters was the promise of prosperity for all Americans. His famous campaign slogan, "A chicken in every pot and a car in every garage," said it all to voters who were winding down the Roaring 20s and heading for a depression. Although Hoover's campaign claim certainly did not come true during his presidency, it has subsequently been fulfilled beyond his wildest dreams.

By 1950, Hoover's dream of a car in every garage was just about fulfilled when 50 million motor vehicles were registered in the United States. However, the number of registered motor vehicles in operation in the United States has increased every year since the end of World War II, outpacing population growth in most of those years. According to U.S. Department of Transportation figures, more than 221 million motor vehicles were registered in the United States in 2000, or close to 31 million more registered motor vehicles than licensed drivers.

That's a lot of cars. Picture a four-lane highway, jammed bumper-to-bumper, and wrapped all the way around the earth—and that's just the 31 million cars in surplus. No wonder we can't sell any more cars.

There are 31 million more registered cars than licensed drivers in the United States. With that surplus alone, the United States could supply every man, woman, and child in Canada with his or her own car.

Back in 1950 when the automobile was still a novelty for many, the number of licensed drivers far outnumbered the available registered motor vehicles to drive as shown in Figure 1-9. But the ratio of drivers to cars quickly crossed over with cars outnumbered drivers sometime in the early 1970s. That means that the United States has had more cars than drivers for more than 30 years. It is difficult to imagine that there is much more room for growth in the automotive industry when you consider that the United States could supply every resident of Canada with his or her own car, just from the surplus 31 million registered cars to licensed drivers.

Year	Number of Registered U.S. Motor Vehicles	Number of Licensed U.S. Drivers	Surplus of Cars to Drivers
1950	49,161,691	62,193,495	–13,031,804
1960	73,857,768	87,252,563	–13,394,795
1970	108,418,197	111,542,787	–3,124,590
1980	155,796,219	145,295,036	10,501,183
1990	188,797,914	167,015,250	21,782,664
2000	221,475,173	190,625,023	30,850,150

FIGURE 1-9 Registered motor vehicles and licensed drivers. There were nearly 31 million more registered cars than licensed drivers in 2000. Source: U.S. Department of Transportation.

With the overall U.S. car sales pie getting ever smaller, and the Big Three's share of that shrinking pie diminishing, will Ford, Daimler-Chrysler, and General Motors ever grow domestic car and truck sales in the United States again? Add to this a slowdown in population growth, and we might have to consider that we have reached natural saturation levels for new car sales in the United States.

Zero-Percent Financing. Although General Motors might have posted its greatest December on record in 2002, the world's largest automaker might ultimately pay a much higher price for that record in the future. Giving up all interest on financing terms to motivate consumers to buy more cars before the end of the calendar year certainly worked like a charm. But GM's 2002 year-end promotion that pushed 60-month terms might actually hurt the automaker over the long haul.

Zero-percent financing certainly can work wonders for the short term, but it can unwittingly lengthen the buying cycle for consumers taking advantage of the deals. Now, instead of buying a new car in three years when financing terms expire, many consumers won't be in the market for a new car until two years beyond that when their last payment is made at the end of the fifth year.

Consumers are also not stupid. Why buy a new car in July when by October 1 of the same year favorable financing plans will be widely available? General Motors' strategy has been to lure as many new customers as possible with attractive financing and then retain their loyalty over time. Historically, however, the automotive industry has done poorly in the area of customer retention, largely because their marketing efforts are almost exclusively focused on luring new acquisitions. Additionally, discounting tactics usually attract fringe buyers, by far the hardest to retain.

The celebration over such year-end programs is usually short-lived as the new year rolls around quickly and the meter on new car sales for another year is reset. Also, a record-breaking month of December in one year that is driven largely by artificial means sets the bar even higher for the company to clear the following year. Consider this: Even with unusually generous financing ploys, total U.S. auto sales—including the imports—have more often decreased than increased in recent years. This industry is headed for major changes over the next decade, including some shocking consolidations that few thought would ever happen.

The American Dream

Homeownership has always been considered a part of living the American dream. That dream has come true for more and more Americans each year since the end of World War II. In 2000, homeownership topped 121 million for the first time ever, more than double the number of homes owned in 1960. Today, there are many more homes than there are families in the United States.

There are 15 million vacant homes in the United States. With that surplus alone, the United States could house virtually every family in Australia.

However, new home starts have gradually eroded over the last 30 years, dropping in number each decade since the 1970s. It's not surprising that this figure is slowing because the vacancy rate of homes in the United States has been steadily rising since the 1970s. In 1970, approximately 69 million homes were owned in the United States, and some 6 million of those homes (8.7 percent) were vacant. In 2000, nearly 12 percent of all homes were vacant in the United States; that's nearly 15 million homes, or enough to house the entire country of Australia.

It's difficult to imagine that basic supply and demand pressures will allow us to continue to build new homes when an increasing number of the homes that we already have are vacant.

Rationalizing the Doldrums

The explanations for the early 21st-century business funk vary greatly, from the terrorist attacks of September 11 to corporate malfeasance at the likes of Enron, Tyco, and WorldCom. Most economists, however, rationalize the sluggish economy as cyclical in nature, and therefore a temporary setback.

The resulting fear, however, has dampened consumer confidence in the equity markets. Coupled with an extraordinarily cautious venture capital community, the lowest levels of merger and acquisition activity since the mid-1990s, and reduced research and development budgets at major public corporations, there is little evidence to suggest that there is any new revenue growth driver on the near-term horizon.

Through it all, though, cheerleaders for an up, up, and away economy abound. Optimism is certainly a good thing, especially in difficult times. However, narrowing rates of growth in all industries raise new questions about new economic fundamentals that could be more permanent in nature. The lingering inelasticity in demand that we are witnessing today suggests the possibility that we are approaching real saturation levels in some sectors. Normally, demand inelasticity is a temporary condition, ordinarily fixed by downward price adjustments. However, saturation could change that and create a more permanent condition of "maintenance sales" that provides no growth.

Conventional Remedies

Meanwhile, back in the day-to-day corporate world, senior managers must deal with the realities of slower revenue growth with age-old marketing tactics that are designed to stimulate demand. We have already pushed the limits of expansion, both domestically and internationally. We have already created a seemingly endless number of line extensions that more often result in the cannibalization of our own sales. More often line extensions slice the pie into many more and smaller pieces and add unnecessary costs to an equation that rarely brings us new revenue. How many variations of salad dressing do we need, and does it really help the corporation grow?

Discounting has become commonplace as we adjust the manufacturer's suggested retail price, trading profit for volume. In the process, we have conditioned consumers to always expect a discount, and more often adjust their buying patterns to times of the year that they know will be more advantageous to them.

In many ways, we already have a built-in stimulus package in the form of consumer credit card debt. Each year Americans buy more and more on credit and pay less and less of the outstanding balance. According to The Nilson Report (nilsonreport.com), consumer credit card spending nearly tripled from $466 billion in 1990 to $1.3 trillion in 1999. Outstanding balances on that spending have historically hovered around 50 percent, or $243 billion and $614 billion for 1990 and 1999, respectively. To put that into perspective, the outstanding debt of $614 billion in 1999 would have translated into nearly $2,500 for every man, woman, and child in the United States. Is it really possible to stimulate the U.S. economy any more?

When All Else Fails, Cheat

Cooking the corporate books is another symptom of our inability to generate new revenue growth. Although many point to greed as the reason many corporate executives cheat, greed has been part of the human condition since Adam and Eve. We now know, in fact, that some corporations cheat. We even know how they cheat. But we really haven't fully answered the question of why they have to cheat. The question, then, really should be this: What has changed over the last 25 years to force some corporations to cheat in order to deliver expected earnings growth?

As a corporation runs the natural course of maximizing both revenue strategies (domestic and international distribution, and merger and acquisition activity) and cost-cutting strategies (downsizing, consolidation, and productivity efforts), it ultimately reaches an ethical fork in the road, forcing a choice between delivering reduced earnings or simply faking the numbers. Obviously, some have opted for the latter. Although the Enron, Tyco, and WorldCom debacles represent extreme cases of revenue and expense manipulation, these cases demonstrate what can happen when revenue slows or is greatly reduced.

Pushing the boundaries of Generally Accepted Accounting Practices (GAAP) to paint a rosier financial picture than actually exists has been raised to an art form in recent years. Such practices have largely been the result of corporate revenue reservoirs drying up, and include such common practices as the inflation of revenues through bogus inter-company billings, inventory stuffing, or simply an overstatement of sales.

Xerox's stock price suffered greatly in the wake of an SEC investigation that focused on the firm's alleged artificial inflation of lease revenues. The original intention of such practices can often backfire, depressing revenue, earnings, and ultimately the stock price. Although the matter is now considered settled, Xerox's stock price has taken a beating since the investigation began in June 2000, dropping by nearly 75 percent over a two-year period.

Drug manufacturer Bristol-Myers created a serious problem for itself when pipeline inventories expanded in the fourth quarter of 2001. The inflation of wholesale inventories created a short-term sales windfall of 10 percent in Q4 2001 when wholesalers aggressively stocked up. As a result, this helped cause a sales shortfall for Q1 2002, and the company was forced to restate sales and earnings estimates both for the quarter as well as for the full year 2002. Bristol-Myers' stock price also suffered, losing nearly 60 percent of its value in less than a year.

These cases represent some of the more public examples of alleged numbers manipulation. It would be nearly impossible to identify and penalize every public corporation that has strayed from strict adherence to accounting standards in the name of self-interest over the last decade. Although tougher laws and heightened accountability on the part of senior executives for their numbers are important and necessary steps, it doesn't solve the fundamental underlying problem: the lack of revenue growth.

Hitting the Market-Share Wall

Sometime around 1975, the post-World War II growth explosion fizzled. Revenue growth became more difficult to deliver, as many of the fundamental product categories reached market share highs. The 25-year run-up was over. We had hit the *market-share wall*—the point at which the rate of revenue growth stops increasing and starts decreasing. It also marks the relative peak of the population of two important groups that make up a particular industry or sector:

1. *Consumers in the category.* The universe of consumers that make up the category has largely been determined. New consumers entering the category are primarily the young who replace that segment of the category population that dies. Population gains over time add minimally to the number of consumers in the category.
2. *Competition in the category.* The universe of competitors that are part of the category has also been largely determined. This is not to say that more competitors won't join the category along the way, or that competitors in the category from the outset won't exit the category. It merely means that the chief producers for the category—along with market-share levels—are greatly established.

In fact, many category leaders have historically experienced their most significant market-share levels just prior to hitting the market-share wall. After hitting the wall, market-share levels, especially for category leaders in industries such as automotive, soft drinks, and other consumer products begin to erode from historical highs. The market-share leaders are usually victims of dozens of category options offered not only by competitors, but also by their own line extensions.

Victims of Our Own Success

In many ways, we have become victims of our own success, raising the bar year in and year out, requiring us to jump even higher the next year. In the world of business, the more you grow, the more you have to grow if you want to keep fueling the delivery of increased earnings.

Consider General Electric, for example. Here's a company that has a history of acquiring 100 or more companies in recent years. Why? Because it takes an ever-increasing amount of new revenue to push General Electric's top line ever upward. As internal businesses mature, an increasing amount of revenue growth at the $140 billion industrial giant must come from acquired businesses, and a $1 billion acquisition today barely impacts General Electric's top line. However, this wasn't always the case.

Throughout the 1970s, General Electric experienced outstanding revenue growth, averaging more than 10 percent a year. The 1980s, however, were far less kind to General Electric's top line with an average rate of growth of just over 3 percent. General Electric nearly tripled its revenue from 1970 to 1979, yet was only able to muster a 25 percent increase in sales from 1980 to 1989. Even more striking is the fact that a much bigger General Electric more than tripled its revenues in the 1990s, topping $100 billion for the first time in 1998. General Electric's revenue grew by nearly $80 billion in the 1990s, from $33 billion in 1990 to $111 billion in 1999.

After disappointing sales in the 1980s, General Electric became an acquisitions machine, gobbling up more than 500 companies over the course of Jack Welch's final five years as chairman. Once hooked on the revenue juice from acquisitions over a period of years, it becomes a difficult habit to kick, and puts immense pressure on any successor to continue the drill: acquire, consolidate, and increase productivity. For Jeffrey Immelt, General Electric's new chairman, it makes it difficult to run the company in any other fashion.

There is little doubt that corporations are finding it more difficult to generate revenue growth by any means, including acquisitions. Since the turn of the 21st century, revenue growth has greatly slowed. So what's the big deal? The big deal is that there is an undeniable connection between revenue and earnings. If revenue stops growing, ultimately so will earnings. For now, most public corporations have been able to put all of their energy into delivering the type of growth that Wall Street expects, and that makes senior management wealthy beyond their wildest dreams. However, the roadmap to earnings delivery has shifted dramatically since 1980 with cost-cuts gaining in importance as the primary earnings driver.

Nonetheless, earnings growth has taken center stage as the Holy Grail for analysts, the business press, shareowners, and management alike. Grow earnings and everybody wins. That is, until you can no longer grow earnings.

Putting Earnings at Risk

This global sales bump in the road won't be fixed by simply firing the vice president of sales or dismissing the advertising agency. This is a new phenomenon for the world's economy. Since the end of World War II, there has always been at least one industry with a rate of growth that is trending up instead of down, until now. Why is this significant? The consistent lack or absence of revenue growth will ultimately put the delivery of earnings growth at risk. In some cases, it already has.

Too many simply brush aside the lack of revenue growth as a short-term problem caused by a number of factors, from September 11 to diminished consumer confidence. The bottom line is this: Management's ability to deliver sustained earnings growth is in jeopardy because of its troubling inability to deliver sustained revenue growth. This puts a tremendous amount of pressure on management to increasingly rely on cost-cutting to deliver earnings.

Wholesale layoffs, dramatic cuts in marketing spending and research and development budgets, and compromising on the fundamental quality of products to save a buck can certainly all contribute to this quarter's earnings target, but at what long-term cost to the health of the corporation and the livelihoods of future generations of workers worldwide?

Ever since the first general store opened near Boston in the 1620s, we have looked forward to a bigger, better year next year. For the most part, we have lived up to that ideal over the last 380 years. We have always believed that growth is unlimited, almost an inalienable certainty, even if it means growing at a slower rate. We believe that the inability to grow is due to someone's inability to deliver. We now know this not to be true in most cases.

We are beginning to understand that growth might not be an economic certainty. If our ability to deliver increased revenues in perpetuity is limited, and our ability to deliver increased productivity in perpetuity is limited, then our ability to deliver increased earnings in perpetuity is also limited.

The Culture of More

We have truly been conditioned to expect more and more in this culture and we are bombarded by the hyperbole everyday. The World's Largest Bookstore. Billions and Billions Served. Now even Google, the popular Web search engine, is puffing it up on its home page: "Searching 3,000,000,000 Web Pages!" There is only one direction: Up. There is only one quantity: More. Our perspective on revenue growth is no different. In many ways, our view toward our economy has largely been warped since World War II, and why not? We continue to deliver record revenues. We continue to deliver record earnings. Incredibly, we expect our winning streak to continue ad infinitum.

Just when we think we have seen the greatest golfer of all time, along comes Tiger Woods. Just when we thought we've seen the greatest woman's tennis player of all time, along comes Serena Williams. Just when we thought we've seen the greatest home run output of all time, along comes Mark McGwire, and two years later Barry Bonds. Because of such rare feats, we think that there are no limits; there is nothing that we can't do.

Our optimism abounds, and that's not a bad thing. We look at any slowdown as temporary, any shortfall as an aberration. In fact, we measure the health of our economy not on what we sell but on what we produce, and even that measure has steadily eroded over the last quarter-century. We are a highly educated and rational society, yet we most often look at business and its promise with childlike enthusiasm, emotionally and irrationally.

We are problem solvers. We intently study each problem and come up with solutions, and we have solved a lot of problems, from bad breath to grass stains, to getting from point A to point B, to communicating with someone across the street or around the world.

We have flooded the domestic market as well as international markets with thousands of product categories over the last quarter-century. We sell everything to everyone, everywhere, yet we still believe that we can convince a consumer in Des Moines to drink one more Coke a week. In many ways, we have tapped out the planet. Those who have the means and access essentially have everything that they need, in any quantity in which they need it. Those without the means are currently not prospective buyers of Lucky Charms. Sure, China is a vast untapped commercial market, but even China has its limits.

For the first time in history, we might be facing the stark reality that there are limitations to consumption, and that just kicks demand square in the teeth. There are no longer any new consumers entering the categories of toothpaste, soft drinks, or breakfast cereals. Therefore, gains come from fractional shifts in market share that cost marketers billions in investment spending each year.

We have super-sized and line-extended ourselves into a corner of saturation where volume is flat and price is powerless. There's an excess of industrial capacity in the United States that makes raising prices virtually impossible. This is an economy of slumbering demand, increased inventories, and dangerously declining rates of revenue growth. We must wake up to that reality. This change in our economy is fundamental in nature. It is real, it is here for a while, and if you are part of the business world, you are dealing with it. To make matters worse, you will have to deal with it in what will likely be an unstable geopolitical climate for the foreseeable future.

You can thank the generations that went before you because they accomplished what they set out to do: innovate, build, and push the boundaries of progress. Introducing countless new products, expanding distribution to every corner of the world, acquiring every possible company. Ever since the end of World War II, the world has increasingly sought to drive record sales, post record revenues, and to deliver record earnings. By any measure, the mission was a huge success, but over the course of the struggle, capitalism's best friend died.

This is why there will be no economic turnaround and no getting back on a growth track. Not the way some think, anyway. The ambition of many generations that pushed for more has unwittingly killed demand. The lifeblood of capitalism is dead, the victim of hundreds of years of progress. A century ago expectations were low and sacrifice was high. Now, in the first decade of a new century, expectations are high and few in developed countries have ever experienced real sacrifice. It's never been harder to increase revenue or to reduce costs.

In some ways, the curtain is still coming down on a century of remarkable progress that spins the head. It just may be that because of that progress, the world's economy will simply turn at a slower pace. Like an aging man who has successfully negotiated the hills in the past, our easy climbs are behind us, and our tough climbs are just beginning.