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Strategy & Leadership

## Blank Checks: Unleashing the Potential of People and Businesses

How an unusual management technique inspires business teams to envision — and achieve — breakthrough results.

by Sanjay Khosla and Mohanbir Sawhney

In 2007, Kraft Foods Inc. was facing a major challenge with Tang — the powdered breakfast drink that had long been one of its iconic brands, made famous in the 1960s when the National Aeronautics and Space Administration included the drink in the rations for U.S. astronauts. The brand was caught in a cycle of underperformance — a situation that commonly bedevils companies as they seek to drive organic growth. In 2007, the leadership team of Kraft’s developing markets identified Tang as one of their top 10 focus brands, and came up with an unusual strategy for boosting the brand’s sales back into the stratosphere: Tang leaders in key countries such as Brazil were given a “blank check,” essentially urging them to dream big and not worry about resources. The results have been astounding. In the last five years, Tang has doubled sales outside the U.S. and become a profitable, US\$1 billion brand there (in comparison, it had taken Tang 50 years to reach the \$500 million revenue mark). The transformation of brands like Tang helped grow Kraft Foods’ developing markets business from \$6 billion in revenues in 2007 to more than \$15 billion in 2011, significantly improving margins.



Illustration by Jack Unruh

The secret of Tang’s turnaround was to free the team from resource constraints that could limit their imagination, inspiring them to achieve unprecedented results that would create a virtuous cycle of growth. This, of course, ran counter to one of the gospel truths in management, that people need to live within their means. Managers have always been taught that they have to work with the limited resources available. Unfortunately, resource constraints limit more than plans. They also limit the creative potential of people.

What if resources were not a constraint? If managers were free to dream and act big without worrying about busting their budgets, they would be limited not by resources, but by their imagination. We believe that business leaders can unleash tremendous untapped potential by unshackling their people and their businesses from resource constraints (while still, of course, holding them accountable for results). The key insight is that business leaders, instead of defining budgets and resources, should focus on defining ambitious goals, while leaving it to their managers and their teams to ask for *whatever resources they need* to achieve these goals. When teams decide their own budgets, they act as owners and are inspired to achieve the impossible. At Kraft Foods (where coauthor Sanjay Khosla is president of the developing markets group), we call this idea a “blank check” initiative.

### The Concept of a Blank Check

A *blank check* is a metaphor for the freedom a team is given to determine for themselves the financial resources they need to achieve a set of agreed-upon goals within a defined time frame. Blank checks exhort teams to “shoot for the moon,” while giving them the rocket fuel they need to break free of the gravitational pull of predetermined budgets and business as usual.

However, blank checks are not a license to spend without limits, without guidelines, or without consequences. Teams have to define the resources they need — they must fill in the amount of the blank check. Every blank check initiative needs to be consistent with the company’s overall business strategy. And it needs to have the potential to produce sustained, profitable growth. (See “[Driving the Virtuous Cycle of Growth](#).”) Blank checks are not meant to produce “one-hit wonders” that bring a short-term spike in results. The idea of the blank check is to empower big ideas that drive a virtuous cycle and change the business’s trajectory for the long term.

Moreover, teams that sign up for blank checks are held strictly accountable for quantifiable results. Blank checks represent freedom within a framework — freedom to act, but with a set of ground rules to ensure that the initiatives stay on strategy and produce results. For example, the framework might include a set of company priorities or areas of focus, innovation platforms, big bets, or even an acquisition strategy that guides the company’s overall strategy or vision. At Kraft Foods, for example, the company’s developing markets business has a focused growth strategy that concentrates on five key categories (e.g., biscuits and chocolate), 10 power brands (e.g., Oreo, Tang, Trident, and Cadbury), and 10 priority markets (e.g., Brazil, India, and China); the strategy is called 5-10-10. (See “[Growth through Focus: A Blueprint for Driving Profitable Expansion](#),” by Sanjay Khosla and Mohanbir Sawhney, *s+b*, Autumn 2010.) The company uses this strategy as its framework, and gives freedom to select teams in the organization to drive the 5-10-10 growth agenda with blank checks.

## How Blank Checks Work

To put the blank check idea to work, business leaders need to go through a systematic process of picking the best bets, selecting the team, defining goals and plans, kicking off the initiative, and monitoring the results. Here’s what happens at each of these five steps.

**1. Picking the best bets.** The first step in a blank check initiative is for the business leaders to choose the business domains that should be



Tang’s localized flavors are boosting sales.

Photographs courtesy of Kraft Foods Inc.

targeted for growth. Blank checks are designed to fund big bets, so it is important that the bets are chosen carefully. Business domains can be defined in different ways or viewed through different lenses — a geographic market (China, for example), a brand (Tang), a channel (food service), a category (beverages), or a consumer segment (teenagers). The domain can also be a combination of these (Oreos in China). Blank checks can be applied to functional areas, such as the supply chain or manufacturing. We recommend selecting two or three definitions for the domain, at most, and using these definitions to shape the larger strategic context within which to look for blank check projects. The objective is for the initiative to be performance-driven and values-led, as well as compliant with federal and local laws and the company’s compliance practices.

As the business leaders choose the domains for the blank check initiatives, they need to keep three criteria in mind. At Kraft developing markets, we call these “the three Ms.” First, the business should ideally have significant Momentum. It is always easier to build on a business domain that is working well than to fix a domain that is broken. A key success factor is to “mine for gold” — to identify what is working and then scale up quickly when the reasons for success become evident. A second key success factor for driving a virtuous cycle of growth is Margin potential in the business. Growth for the sake of growth is often dangerous. Third, the business initiative should be Material — something that produces high impact with the least possible effort. There should be sufficient headroom for the business to grow.

**2. Selecting the team.** Blank checks are ultimately bets on people, rooted in the faith that they have the potential, the passion, and the perseverance to transform their businesses. Selecting the recipient of a blank check begins with the top leadership team working closely with the leader of a given business to identify the person who is most naturally accountable for a certain area of the business where the blank check can ignite transformation. Team leaders selected for blank check

initiatives need not be the most senior or the most experienced — more important is for them to be the people with the most potential. But that is just the initial criterion.

The business leaders must ask themselves a series of questions about the blank check candidate. Is this person a natural choice for the challenge based on his or her current responsibilities and span of control? Will this person be willing to take on the responsibility and not be frozen by fear? Is this person capable of being stretched to think in new ways? Does this person have the capacity to inspire others to do things differently? Does this person have a track record of delivering results? If the answer to any of these questions is no, then the business leaders must consider alternative candidates. And if one cannot be identified, leaders may determine that the area of the business they were targeting is not appropriate for a blank check.

**3. Defining goals and plans.** Once the business leaders have selected a business domain and chosen the team leaders who will receive a blank check, they need to define the targets they expect the teams to achieve. Targets need to be quantified, aggressive, and time-bound. Quantified targets are unambiguous, so everyone clearly understands the nature and goals of the game. Targets should be measurable on well-defined metrics like revenues, gross margins, and cash flow from the business. Targets also need to be aggressive, to the point that they should not be achievable simply by making incremental improvements. Teams should be forced to question all their assumptions about their business and to confront orthodoxies that have been blindly accepted by the company. Blank check initiatives also need to have a short time frame, limited to a few years at most. It is absolutely essential to have a clearly defined set of goals for the first 12 months. The short time frame forces the team members to produce results quickly. They do not have the luxury of pursuing marginal improvements or initiatives that will take a long time to produce results.

At this stage, the team leaders are asked to submit a short business proposal (no more than two pages) that reflects the three Ms. The time given to the team to develop the proposal is relatively short. This prevents the team from becoming paralyzed by overanalysis. In some cases, the team may take up to a month to produce a proposal so they can weigh the alternatives in order to ensure they are making prudent business decisions that will nonetheless change the business's trajectory. In a few cases, the team will decide to turn down the blank check. This is fine, because undertaking a blank check initiative must always be voluntary.

The business proposal needs to define the initiative and the key steps that the team will take to produce the agreed-upon results. This includes the goals, the time frame in which the goals will be achieved, steps detailing how the plan will be executed, key milestones and deliverables, and financial projections. At the early proposal stage, the initial execution steps may be outlined, but the full project need not be fully fleshed out.

Along with the proposal, the team also must fill in the amount of the blank check — the financial outlay that they are asking for. The amounts of the blank checks we have been associated with have ranged from a few million dollars to \$20 million. The amount should be more than enough for the team to carry out the initiative without worrying about running out of money to invest.

**4. Kicking off the initiative.** Once the business plan has been agreed upon, business leaders need to formally “issue the check” by approving the amount the team has asked for and transferring it into an account that can be accessed by the team leaders.

The typical first reaction to a blank check challenge is skepticism. People in corporate settings have been conditioned to fight for every resource. They have been trained to think in terms of budgets, cost cutting, and belt tightening. They have likely never been in a situation in which they can ask for unlimited resources, and may find the idea so foreign that it is difficult for them to believe it at first. Once the team realizes that their business leaders are serious, skepticism can easily give way to fear — fear of failure and fear of being in the spotlight. Fear is often followed by frenetic activity, when the team tends to focus on doing more of the same or doing the same things better. But the team quickly realizes that this linear and extrapolative thinking will not produce the breakthrough results that they need to achieve. This, in turn, leads the team to powerful insights because they are forced to focus on the essence of the business, the brands, and the market.

**5. Monitoring results.** As the blank check initiative begins, it is important to set milestones for key deliverables, and then



to monitor them closely as the initiative proceeds. We recommend quarterly milestones, so that course corrections can be made quickly. As is true of a company's startup phase, blank check initiatives rarely go according to plan. The team will run experiments and take risks, and some of these experiments will inevitably fail. Failing is part of the learning process. What is important is to fail early, fail cheaply, and learn fast from the failures. Metrics for blank check initiatives should be kept simple enough so that progress can be measured on a single-page report.

### How Blank Checks Drive Growth

To see how blank check initiatives work in practice and the results they can produce, consider the following three case studies. They all describe recent Kraft initiatives in developing markets: The acceleration of the Cadbury business in India, the revitalization of the Tang powdered beverage business, and the transformation of Kraft's China business.

#### Cadbury India's sweet success.

When Kraft Foods acquired Cadbury in February 2010, India became one of the 10 priority markets for Kraft. It had taken Cadbury more than 40 years to grow the business to \$400 million by 2009. During one of management's first visits with the regional team in February 2010, the leadership team offered Anand Kripalu, president of Kraft South Asia and Indo China, a blank check to make India a half-billion-dollar business by the end of the year — which meant accelerating the region's growth plans for the year and increasing total sales by 25 percent. The Indian management team's proposal called for expanding



Kraft India increased investment in Cadbury advertising and promotions by 45 percent.

Photograph © Andrew Hasson / Alamy

distribution, investing in sales, and increasing the marketing behind Cadbury Dairy Milk, Cadbury's biggest brand in India. The team based these choices on their conviction that Cadbury Dairy Milk had momentum, offered attractive margins, and was material because it was the most important part of Cadbury's Indian business.

"We turned around the proposal in just a few short days," says Kripalu. "It was quickly approved, and the next day we shared our new \$500 million target with our employees. At first, people thought we had lost our minds. But soon that fear turned to inspiration, once employees realized that we'd been given the freedom and resources to take our business to a new level."

The team took the challenge and ran with it, innovating on several dimensions. When they evaluated distribution channels, for example, the team observed that in some retail outlets, Cadbury Dairy Milk was stored and displayed in "visicoolers" — special display cases that give Cadbury visibility at the retail location and keep the chocolate from melting in the oppressive Indian summer heat. The outlets that had visicoolers generated sales that were 15 percent higher than those at comparable outlets. On the principle of leveraging what works, the team decided to double the number of locations with visicoolers, from 20,000 to 40,000 retail outlets. They also doubled permanent in-store displays for Cadbury Dairy Milk, from 5,000 to 10,000. They expanded distribution into 2,100 additional towns and villages — bringing the total number of sales outlets to 550,000 in India — and increased investment in Cadbury Dairy Milk advertising and promotions by 45 percent.

The team also looked beyond chocolate with the "Kuch Meetha Ho Jaye!" (Let's have something sweet!) campaign, tapping into the Indian tradition of having a sweet bite before life's most important moments. The idea was to expand the franchise into a larger market of sweets rather than just focusing on chocolate.

The results were transformational. In 2010, Cadbury India had its best year ever, with almost 28 percent revenue growth — doubling its original growth targets and exceeding the \$500 million blank check target. The momentum continued in 2011 with more than 30 percent growth. The best part? The team did not end up spending all the money they had asked for, and returned a significant portion of their blank check allocation.

**Doubling the Tang business in five years.** The developing markets leadership team decided to issue blank checks to a team of Tang leaders in key global markets, asking that they connect locally with consumers in their market, but leverage the resources of the \$50 billion global Kraft Foods organization.

The team came up with several innovations quickly. Using Kraft's global technology resources, they developed locally relevant flavors for Tang such as tamarind and horchata (a traditional drink flavored with lime and cinnamon) in Mexico, mango in the Philippines, passionfruit and soursop (a local fruit) in Brazil, and pineapple and lemon mint in the Middle East. Although Tang's original orange flavor tops the sales charts worldwide, these local flavors soon made up about 25 percent of Tang sales in developing markets.

With the realization that taste is king and children's diets in developing markets are often deficient in nutrients, the team repositioned Tang as an affordable (pennies per glass), nutritious beverage fortified with vitamins and minerals. True to Tang's heritage as a source of vitamin C, the team took the global idea of fortification and localized it to meet regional nutrition needs. For example, they fortified Tang with vitamin C in all geographies, but in Brazil and the Philippines, where children often are iron deficient, they added iron as well as other vitamins and minerals.

The team also crafted a marketing idea for Tang to create a kids' movement involving sustainability called the "Preparou, Bebeu, Faz" (Prep, Drink, Do) campaign. Tang is a very green brand — it takes less energy to produce and transport than other beverages because the water is added by the consumer — so the new campaign built upon the brand's green equity. The team standardized the pouch size and structure across Latin America to reduce 3 million pounds of packaging annually. They took this green idea to places like Brazil and encouraged children to recycle. More than 90,000 kids recycled more than a million packages in Brazil within the first few years. The used packages are recycled into soccer balls, bags, and building materials whose sale raises money for schools. This kids' movement has been expanded to other markets, including Argentina and Mexico.

Inspired by the blank check, the Tang team used local innovation and global technology resources and a collaborative approach to achieve phenomenal results. Tang is Kraft's newest billion-dollar brand. Its sales have almost doubled in five years, and it is now more than three times the size of its nearest competitor. In 2011, Tang was served 20 billion times in 90 countries.

"Having a blank check for Tang allowed us to think differently about this brand," says Gustavo Abelenda, president of Kraft Latin America. "Our small, virtually connected team had the freedom to develop a global framework for the brand, quickly scale up local innovations, and use global technology to drive explosive growth."

The Tang case illustrates several insights about blank checks. The aggressive targets forced the team to realize that the strategy they had in place at the time, creating new variants of Tang, would not be enough. They also realized, as teams frequently do when taking on a blank check challenge, that they did not have all the answers. They reached out to different types of outsiders, including packaging experts, supply chain experts, and marketing and advertising agencies. They held workshops to discover the essence of the brand, what was different and special about Tang. The packaging experts pointed them to the patented Boato machine from Italy that could mass-produce single-serving sachets of Tang. The team also discovered Tang's core asset: It tastes better than water, and it is environmentally more sustainable and cheaper than carbonated beverages. This led the team to broaden the positioning of Tang by setting it up to compete against water rather than other powdered beverages. The team decided to "attack water" with the brand positioning "Tang makes water exciting."

**Breaking the mold in China.** The Tang example was focused on brand success, but the blank check approach can also transform an entire business. Kraft Foods China shows how this can happen. Early on in its experience in China (beginning in 1984), Kraft had aspired to make Kraft Foods China a \$1 billion business — to match the 1 billion people in the country.

But by 2006, the company's China business was still very small, about \$100 million in annual revenues. And worse, it was plagued by low gross margins; growth for the sake of growth was a waste of time because there was no hope of making money. There seemed to be no point in scaling up something that was not working. It was time to take the way the company did business in China and flip it on its head — and a blank check initiative was the catalyst for that change.

“We knew that Lorna Davis, who was China's new business leader, and Shawn Warren from our region office, who knew our categories and brands well, would make the perfect pair to lead this transformational initiative,” recalls Pradeep Pant, president of Kraft Asia Pacific. “Both had the drive, the creativity, and an inspiring leadership style to make it happen.”

With a blank check in hand, Davis and Warren rose to the challenge. In eight weeks, the team came back with what many would consider a risky proposal that seemingly defied logic. Instead of continuing to pour money into the business to chase after unprofitable growth, the team proposed a counterintuitive approach to scale back the business they were trying to expand. “The business was stuck in a vicious cycle,” recalls Davis, who is now senior vice president in the company's global biscuits category, “and we knew that expanding our current business model was not going to work. The principle of giving trust and support to the local management team with blank checks allowed us to break out of that cycle and transform the business.”

Their proposal aligned squarely with the company's 5-10-10 strategic framework; the team decided to focus their portfolio on a few things that mattered, like biscuits (cookies). The team invested in deepening their local talent pool so they could get closer to Chinese consumers. And they tossed the “not invented here” syndrome out the window by leveraging a “glocal” approach that combined the best of global technology and expertise with local market know-how. Finally, they gave themselves an aggressive time frame to turn the business around. “Our proposal aligned with our 5-10-10 strategy,” says Warren. “Biscuits were one of five key categories, and the brands, like Oreo, were among our 10 power brands. Having the freedom of a blank check helped us take risks, think bigger, and look at the business with fresh eyes.”

Today, Kraft Foods China is a success story: The team doubled their innovation rate, transformed Oreo into the number one selling biscuit in China, and posted net revenues of more than \$800 million in 2011. Today the business's advertising spend exceeds the business's revenues in 2006. Most importantly, Kraft Foods China has a sustainable business model that is delivering a virtuous cycle of growth and is among the fastest-growing CPG companies in China today.

### Dealing with Failures

Blank checks produce spectacular results when they work. However, with all innovation efforts, a certain percentage of them will be unsuccessful. Business leaders need to be prepared for some of these initiatives to fail. There are two important lessons in dealing with failures — learn from the failures and overcome the fear of failure.

Kraft's Royal affordable nutrition program in Latin America is an example of how to deal with a blank check initiative that doesn't work out. Kraft believed that there was a large opportunity to drive growth at the “bottom of the pyramid” by developing nutritious yet affordable products for low-income Latin American consumers. A Latin American team took on a blank check challenge and came up with a new affordable nutrition product under the Royal brand — a line of gelatin and



A blank check initiative made Oreo the top-selling cookie in China.

Photograph © ImagineChina

pudding desserts featuring fortification with vitamins and 45 percent less sugar. The products tasted good and the price points were affordable. The team also managed to build awareness and secure good distribution for the brand. However, the products failed to sell well, and the gross margins were lower than expected. Kraft decided to pull the plug on this initiative.

The team learned many important lessons from this failure. The product involved changing consumers' attitudes and behavior — a difficult and lengthy process. The positioning of the product as a “treat” did not resonate with target consumers. And the business model was not sustainable: Costs were too high, and the company could not meet the affordability target it had set while still earning an acceptable gross margin. Importantly, the team leading the initiative was not penalized; the team leader was promoted to head the snacks business in Brazil despite the failure, because he took a risk and then learned from his mistakes.

### **Tips for Managing Blank Checks**

Through our experience with several blank check initiatives in different product categories and markets, we have identified some important principles for improving the odds of success.

**Focus on what matters.** Blank checks must always focus on what matters to the business. In the case of Kraft Foods, blank checks are linked to the company's “winning through focus” strategy, which allocates resources in line with its 5-10-10 strategy.

**Create a virtuous cycle of growth.** Blank checks can produce phenomenal revenue growth, but this growth should be both profitable and sustainable over time. Business leaders should be careful that teams don't undertake initiatives that can boost revenues in the short term but that will hurt the business in the longer term. To ensure sustainable profitable growth that drives a virtuous cycle, blank check initiatives need to be gross-margin accretive. Margin expansion can come from increased revenues, from cost reduction, or from productivity improvement.

**Innovate broadly.** To harness the full potential of their business, teams need to take a broad view of innovation that goes well beyond creating new products. They need to innovate with packaging, promotions, advertising, distribution, and partnerships.

**Simplify everything.** Companies are often hamstrung by the complexity of their organizations and their operations. Complexity adds cost and slows down decision making. Blank check initiatives should strive for simplification. Simplification can be achieved in the product (for example, by reducing performance or features to “just enough” levels desired by consumers), in the process (manufacturing, distribution, sales), in the organization (removing layers and moving decision making closer to local markets), and in administration (faster decision making and fewer meetings).

**Don't overdo it.** It is easy to get carried away by the success of blank checks and approve too many. Blank checks are powerful tools, but they are very demanding in terms of both financial resources and leadership bandwidth. They will produce revenue and profit increases in the long run, but they require significant investments in the short term. They also require a lot of personal attention from business leaders. Just as venture capitalists limit the number of startup investments they make and the number of company boards they serve on, business leaders need to limit the number of blank checks they issue simultaneously.

**Create a family spirit.** Blank check initiatives require every team member to put the collective good of the team above his or her ego and personal point of view. To encourage cooperation and interdependence, the team should think of itself as a family. This attitude can be fostered by adjusting incentives so that team members win when the team wins as a whole. It also helps to host “family dinners” before every major leadership team meeting. Each dinner has a clear agenda focused on two or three business issues that need input from the family. At the end of the dinner, the team arrives at a consensus on the business issues. This practice gives the team clarity on what they need to do and also promotes a sense of shared ownership of the outcomes.

### **Driving Organic Growth**

It is not easy to find profitable organic growth. Faced with stagnant demand, intensifying competition, and greater pricing



pressures, business leaders feel that their growth is constrained by the environment in which they find themselves. However, the constraints are sometimes of their own making. Even seemingly sleepy businesses hold tremendous untapped potential. If business leaders can liberate their people from the limitations of budgets and resources, they will find that their people will surprise both leaders and themselves with what they can achieve. This is the power of blank checks. **s+b**

## DRIVING THE VIRTUOUS CYCLE OF GROWTH

Although blank checks are designed to create a step change in the growth of a business, it is important that the growth in revenues and profits is lasting. There are many ways to create a short-term revenue increase, such as discounting, consumer promotions, and trade promotions. And there are many ways to produce short-term increases in profits, such as cost cutting and restructuring. But true shareholder value is created when the profitable growth is sustained over the long term.

To ensure that blank checks produce durable profit and revenue growth, it is important to embed the blank check initiatives within a well-defined process that ensures checks and balances on the initiatives. We call this the Virtuous Cycle of Growth. The virtuous cycle is based on a seemingly simple insight — the more you grow revenues and cut costs, the more resources you have available to invest in future growth. The essence of the virtuous cycle is that growth generates resources that drive more growth. The virtuous cycle consists of five steps; each step emphasizes an *outcome* and the *means* to achieve the outcome. These steps need to be followed rigorously to ensure that blank check initiatives remain on track.



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## RESOURCES

Sanjay Khosla and Mohanbir Sawhney, "Growth through Focus: A Blueprint for Driving Profitable Expansion," *s+b*, Autumn 2010: Rather than seek increased revenues and profits by expanding products and markets, companies should follow a seven-step strategy for achieving more with less.

Irene Rosenfeld, "Inside the Kraft Foods Transformation," *s+b*, Autumn 2009: Top leaders from the largest food and beverage company in the U.S. talking about their three-year turnaround and their campaign to reorganize for growth.

For more thought leadership on this topic, see the *s+b* website at: [strategy-business.com/strategy\\_and\\_leadership](http://strategy-business.com/strategy_and_leadership).