The Growth Imperative

Considering a More Productive View of Business Growth

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After spending the last 20 or so years talking with many business owners and managers about change and growth I've discovered that many would just as soon not grow their businesses as they understand the concept of growth. They are happy with their positions in the business universe, the business provides them and their stakeholders with the level of benefits they want, and they see no reason to upset what is a very comfortable existence.

They have a sufficient and familiar customer base, a proven product mix, a market in which they may not be first, but which provides them sufficiency. Their business processes are familiar and well broken in, their employees are more or less dependable and effective, and their strategic partners are more or less trustworthy.

On the other hand, messing with any of these proven components in an effort to improve and grow presents the specter of discomfort, error, loss, and catastrophe. Indeed, making changes to an established business can be high risk with uncertain future outcome, especially if the business has been successful doing things a certain way for most of its history.

However, looking back on the conversations I've had, most of them were with owners and managers that either knew their business was in trouble or had a nagging feeling that trouble was just around the corner. The old saw: "If you're not growing you're shrinking." kept running through their minds.

Almost invariably, when I asked these owners and managers "What do you mean by growth?" the answer was or boiled down to more revenue - financial growth. And indeed, most of the institutional investors I know measure a business primarily by two metrics: revenue and EBITDA, two primary financial measures. Business' responses to being measured thusly is to seek increased product sales – greater market share. Create a sales force, hire sales superstars, find new ways to incentivize sales people, spend more on marketing; all the standard ways to get more customers. Unfortunately, many times none of these direct approaches result in top line growth and often not in bottom line increases.

While the growing versus shrinking simile is indeed an “old saw”, my experience is that it is accurate. Several years ago I talked to the owner of a boring company. Not that the company was uninteresting, but that they dug holes for foundation footings. The owner wanted to retire, but he couldn’t afford to because his revenue had shrunk to the point that it didn’t clear the revenue/EBITDA hurdles for most purchasers.

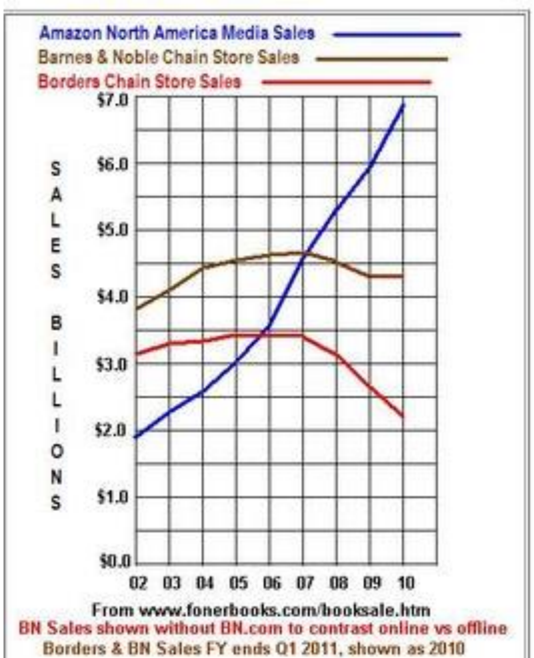
He was in this situation for two primary reasons:

He had depended on relationships from his time in the construction industry prior to starting his business to bring him new projects. He had not created new relationships and the old ones had eroded.

He had a large (for his business) investment in equipment made at the onset which now was becoming obsolete and his production methods using this equipment had not developed as new technology came into the industry.

He had failed over time to grow his business in its value network, the net of business relationships among producers, vendors, customers and competitors; and he had failed to grow his business in technological capability and processes.

Another, much larger but similar and well-known, case of failing to grow is that of Borders Books. Forty-some year-old Borders, once the second largest book retailer in the country, liquidated in 2011 after failing to find any buyers. The two big culprits were technology (once again) and process. Borders failed to grow into electronic publishing and internet marketing and sales resulting in a major decline in sales starting in 2007 (see graph at left).



Amazon outsells brick-and-mortar chain stores

These are just two examples of companies that failed to enhance some basic business drivers: technology, process, and relationships; and therefore failed to grow top and bottom lines. There are many, many possible vectors of growth for a given company and each company’s set of possible growth vectors is unique.

To achieve top line or bottom line growth, companies should turn their attention away from market capture and toward the existing or even nascent capabilities that are the strengths or potential strengths of the business. Executive attention and resource allocation actions should turn from simply gathering more customers to bolstering and engaging the company’s inner strengths with the understanding that resulting increased value production will result in better top and bottom lines; things that we term growth drivers.

Even aside from financial growth and more critical, failing to maintain and enhance the company's strengths will result in falling behind the competition and the market as in our examples above.

There are hundreds of potential growth drivers. Each company has its own unique set which can be woven into a foundational network to support an increase in the company's produced value. Let's look at a few candidates.

Some Growth Drivers

Let's look at some examples of growth drivers and then see how they might be combined to create growth vectors for a company.

Communication Skills – Salesmanship is the communication skill that most immediately think of in relationship to company growth. However, the ability to formulate and express an idea is one of the base components of many growth vectors: such things as sales, branding, value propositions, employee motivation, and customer relationship management among others.

Leadership – One of the greatest assets of a management team is the ability to envision and to agree on a vision of a future state for its enterprise and to be able to mold and bend their shared vision as the environment changes. The vision should include at least some idea of the path to fulfillment; the actions and resources necessary to realize the vision and the ability of the management to focus the efforts of the organization along this path.

Relationship Formation – Relationships come in two flavors – strategic and sales. Sales relationships are personal between the company's representatives (generally termed salespeople) and its customers and prospective customers. Strategic relationships are those between the company's leaders and managers and the leaders and managers of its suppliers, competitors, large customers, regulators, and others. Note that, while a relationship belongs to the company, it is maintained between two people, sometimes with the assistance of others. A company's network of relationships drive its market share and its value creating capabilities. The larger the company the more important strategic relationship tend to become to its success.

Technology – In most cases technologies are distributed in various forms throughout the company's processes and also throughout the company's products from the bar code scanners in the company's warehouse to the LCD and LEDs in the TV's that the company produces. It is the effective acquisition or development, and the application of these technologies which contribute to company growth.

Knowledge – Corporate knowledge consists of the combined knowledge of the entire organization team regarding value production codified and/or embedded within the processes of the company and available for application to the value production system.

Innovation – Writers have made much of the power of innovation to foster business growth. Current thought is that the most innovative company is the inevitable winner. Our definition of innovation is that it is change that creates a new level of value produced. Notice that innovation is the application of an invention defined in the broadest sense.

Growth Vectors

These basic growth drivers, when combined and applied, enhance the enterprise's production of or enable the creation of growth vectors for the company the use of which yield increased value production with resulting top and bottom line impacts. Depending on the company some of these growth vectors might include:

- More efficient techniques and methods (process improvements)
- Reduction in production costs
- Development of new or improved products
- Increase in employee and/or management capability and motivation
- Improved management processes
- Cross-market and new market development
- Enhanced monetization (improved value capture)
- Stronger and larger value net
- Enhanced geographical reach
- Greater acquisition resources
- Improved integration
- Better legal and regulatory management
- Improved and/or enlarged organizational structure
- Improved branding and sales
- Prolific new product development

These are only a few of the growth vectors which a company can follow, and each can be created and strengthened through the engagement of a particular set of growth drivers.

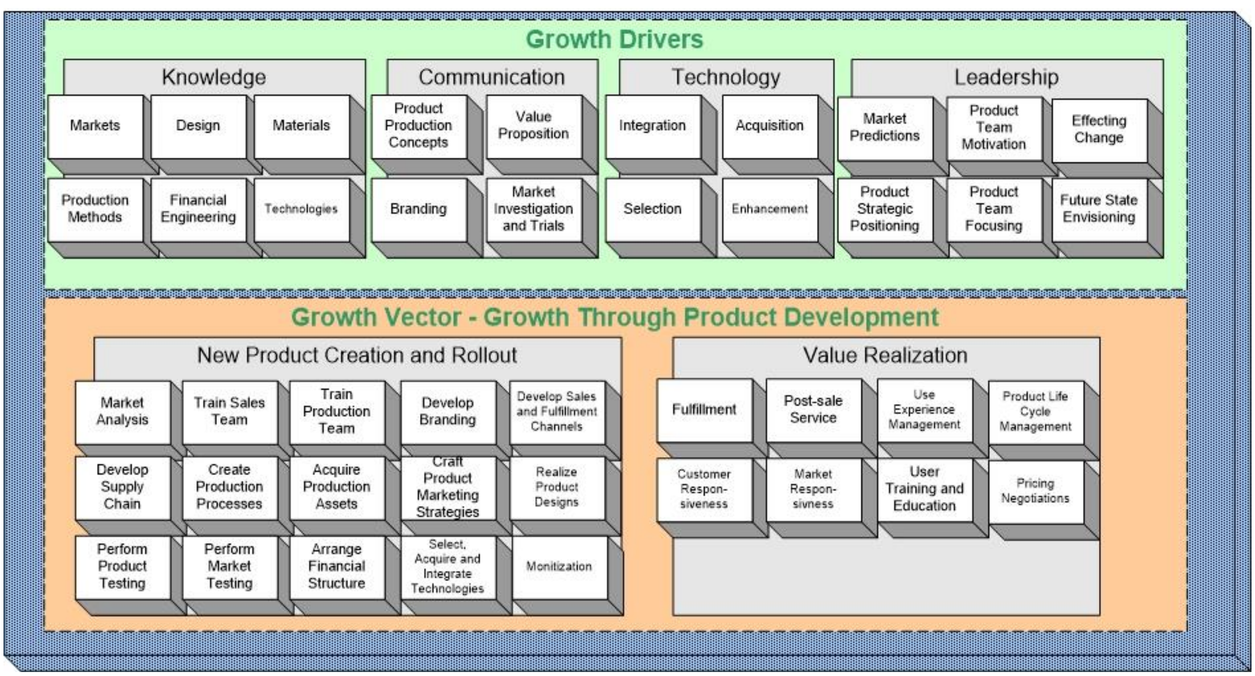
A Simplified Example

Let's look at a very simple and attenuated example of growth drivers applied to the new product development process. Even this trivial example becomes somewhat complex when we trace all the applications and relationships on the way from the growth driver clusters: Knowledge, Communication, Technology, and Leadership through to the actual realization of value by the product user. These are certainly not the only growth drivers extant, but to simplify our example, we have chosen them as an applicable subset to create growth through new product development.

The complex of “growth drivers” are the fundamental tangible and intangible assets that the company uses in constructing and operating its “growth vector”, in this case the ability to produce value through constant new product creation and product enhancements. We’ve selected this vector because it is well-known and understood in the technology industry. Both Apple and Microsoft use this type of vector, constantly revising existing products (mostly software) and also constantly introducing new products (mostly hardware). This gallop towards the new and novel keeps Microsoft and Apple ahead of its competitors and keeps its customers constantly coming back for more while enticing new customers to its dynamic product lines.

In applying this model to any particular organization, the trick is to discover and engage its strongest value drivers to create a set of growth vectors for the company which, when followed, can create superior value which attracts new customers.

Value Creation Using Growth Drivers



While this diagram looks complex, the real system is even more complex. Not only have we left out some less influential components but, in addition, there is dynamic interaction among most of the components. For instance, the company’s knowledge of technologies in the Knowledge driver, influences all of the pictured components within the Technology driver: Selection, Acquisition, Integration, and Enhancement. Similarly, the Communications components Value Proposition and Branding have a large influence on New Product Rollout components Train Sales Team, Develop Branding, Craft Marketing Strategies, Perform Market Testing, and Monetization. It is best to think of this diagram as a network of interactions and influences among all the components, even to the extent of considering feedback from Value Realization into all the Growth Driver components and the New Product Creation and Rollout components.

On the major component level the network might look something like the diagram below. Again, this is grossly simplified but gives the gist of the wealth of interconnections and influences among the various major level components of a company's value producing system.

It is part of the job of management to understand and engage and even modify (or create were portions are lacking) this system to grow value produced by the company and therefore cause the company to grow no matter the growth metrics applied.

Only by increasing value production can companies grow and only by strengthening and engaging the growth facto/growth vector systems can a company increase value production.