FOUR GROWTH DRIVERS YOU CAN'T AFFORD TO OVERLOOK

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It's estimated that up to 90% of business strategies fail to deliver their intended value. Those failures (whether partial or total shortfalls) are often due to one of two reasons. One reason is the strategy did not sufficiently focus on customers and markets and create a unique source of value for those markets. The other is that despite having a compelling customer-centric strategy, the organization was not capable of executing that strategy.

The first reason is external and relates to market drivers, while the second one is internal and focuses on organizational growth drivers. Companies who consistently design and execute successful growth plans apply the same rigor, discipline and follow-through to both sets of drivers. And the most successful companies go a step further by identifying and leveraging the linkages between those drivers.

The current economy presents business leaders with an ideal opportunity to reposition not only their businesses, but their organizations, for growth. Specifically, there are four areas of opportunity that are prime candidates for critical review and improvement. Experience and data show that companies who address all four areas will outperform those who don't. The four areas are:

- Strategic Rigor, Alignment and Execution
- Operational Efficiency
- Segmentation and Differentiation
- Changing and Leveraging Culture

This article looks at the external and internal drivers of each area, identifies key questions or issues for each area as it relates to growth, and provides possible ideas for optimizing each area in your organization. Please note that while we use the term "company" – the principles in this article apply to both for-profit and non-profit organizations.

Opportunity 1 – Strategic Rigor, Alignment and Execution

Business Drivers: The past 18 – 24 months have already forced many leaders to take a more rigorous look at what their business model must be over the next couple of years, what markets they should be in and should exit, what products and services show the most economic promise and which ones to shed, what their customers want or need most, what they are willing to pay, and the product/pricing options for going to market in the most economical and competitive way.

Looking rigorously at their business model includes focusing on the key capabilities they need to manage and advance that business. The capabilities we hear mentioned the most by C–Level leaders are: (A) building customer and brand value, (B) developing innovation as a key capability, and (C) driving excellence in execution. So what are the implications for you and your company?

(A) Building customer and brand value. First of all, are you identifying the unstated and unmet needs of your customers and delivering on those needs in a unique way that can't be easily replicated by others? Are you the supplier of choice in your customers' minds? Do you enjoy a customer loyalty to your brand that creates a competitive barrier to entry and drives substantial growth?

(B) Developing innovation as a key capability. Secondly, are you nurturing innovation as a mindset in each and every employee? This isn't just about product and service innovation, but about looking for ways to improve, combine, extend or refine processes, markets, supply chain, alliance partners, operating or infrastructure costs, selling costs, marketing ideas, cycle time and more. How can you create a company-wide restlessness about the status quo?

(C) Driving excellence in execution. Thirdly, how can you build an end-to-end culture that executes your plans and goals in all functions and at all levels? Do you have the processes, metrics and players in place to monitor progress, quickly identify and address obstacles, and readily adapt when they see a new or unplanned opportunity?

Organizational Drivers: (A) Building customer and brand value. Once the business model and customer/market focus is set or revised, the next review should be around customer-facing employees. Are they engaging their customers the way they need to be if your company is to truly differentiate itself in the marketplace? If not, why not? Do they lack the needed skills? Are they not interested? Do they not know the parameters or rules of engagement? Are there other reasons? What can be done to address them? Voice of the Customer (VOC) initiatives have proven quite effective at identifying the real sources of customer value and differentiation. VOC data can then be used to map the "moments of truth" in the customer's experience, and build skills and processes for consistently providing value throughout that experience.

(B) Developing innovation as a key capability. What does it take to build meaningful capabilities in an area such as innovation? In essence, a key capability is the collective result of individuals having and applying various competencies or skills. Innovation comes from your people. An innovation capability is created when significant portions of your organization's people are expected to, shown how to, and motivated to think creatively about each and every aspect of their role. There are four pillars to building such capabilities: a proven process that provides the guidance and related forums and tools; metrics for measuring the steps and progress of the process; skills (training, practice, coaching and mentoring); and implementation support such as goal setting/KPI's, incentives and communications.

(C) Driving excellence in execution. A culture of execution requires clarity and alignment of goals, and accountability for achieving those goals. Oftentimes, a company's strategy is ill-fated from the beginning because it lacks the clarity needed for consistent execution. Clarity begins when employees understand enough about the strategy that they can generally describe it to customers, potential customers, co-workers and potential co-workers. Are they inspired by it and feel equipped to do their part in implementing it? If not, why not? And how might the company address that? Is the strategy translated into key initiatives and then into specific and measurable goals at the division or department/function levels? Is there true cascading of those goals from the manager down to the most entry-level player? If not, how can we create that connection?

Accountability is created when everyone shares a common view and urgency about where the organization is going, and is comfortable challenging and supporting each other to get there. Creating accountability also requires concrete consequences for achieving or missing those related goals. An effective and practical performance management process will create such goal clarity and alignment, and drive collective and individual accountability. Similarly, the compensation (and other rewards) process and HR policies must create the consequences needed for ensuring that accountability.

Opportunity 2 – Operational Efficiency

Business Drivers: Many of the business leaders we talk to have already taken or are currently taking a critical look at what processes are core to their business, add value to the customer, and would produce above average return on any related investment. They are also working to identify any non-core or non-value-add processes or functions that could be eliminated or performed better and more cheaply in an outsourced or offshore arrangement. And they are taking steps to gain economies or efficiencies by centralizing certain parts of the business.

While business leaders seek to aggressively manage costs, at the same time, many of them are aggressively investing in certain areas. For example, many companies severely cut or eliminate their marketing efforts in times like these, while others actually accelerate their marketing focus to be better positioned for the rebound. The same trade-off exists in other areas such as R&D, technology and building customer loyalty. Some companies view spending in these areas as luxuries – others view them as windows of competitive opportunity that they can’t afford to miss.

Organizational Drivers: Relevant internal questions we like to see business leaders asking include: Where are the disconnects and speed bumps in our internal processes? Are we victims of our own silos? Does it take too long to share key information, make decisions and allocate resources? Are we uninformed about or too far removed from what’s really happening on the front lines or in the trenches with our customers? Do we have too many layers? Are customer, product and market issues and opportunities getting to the right people quickly enough; or are they being slowed down or diluted by our hierarchy of bottlenecks and filters? We find many companies have too many layers, questionable manager-to-employee ratios, overlapping roles, and legacy policies and procedures. The end result is a disjointed, less efficient operation and a choking off of the company’s ability to be nimble.

Economic times like these are also great times to redefine what “career growth” means. Get people to invest in their own growth by learning new areas of responsibility, taking on broader assignments and growing laterally. This is especially important because the entire organization is being asked to do more with less. For the employee, lateral skill growth increases their value to the organization, enhances their job security and may well be their only avenue of near-term growth as organizations have fewer layers and promotional opportunities in the future.

Closely related to this effort is training. While the temptation is there to cut all or most training, such broad-brush efforts will actually impair the company’s ability to effectively rebound. For example, Toyota views these tough times – when sales and manufacturing is significantly down even for them – as times to invest in the deepening and broadening of their employees’ skills. Their view is that their better employees will stay and be more prepared for the recovery than those of their competitors. Not every company can be a Toyota, but every business leader can be more surgical with their training and similar investments (or cuts) to ensure the return and competitive advantage is there.

Opportunity 3 – Segmentation and Differentiation

Business Drivers: Most business leaders have likely spent considerable mind share lately thinking critically about the company's customers, markets and the impact they have had and will likely have on revenues and costs. Are customers leaving and if so – are they the right ones to leave and are they leaving for the right reasons? For example, losing a "high-maintenance," marginally-profitable (or non-profitable) customer to a competitor is often a good thing.

Conversely, losing a profitable customer is rarely a good thing. Not only do you lose the revenue and favorable margin, but the cost of replacing that business, the negative views that customer might share with others in the marketplace, and the leverage the new supplier gets by talking about their latest "steal" from you, can multiply your total loss by 2 – 3 times the amount of the lost revenue.

Because of these factors, customer segmentation is a business imperative. And it's even more important now when the return on every sales and marketing dollar needs to be maximized. Companies cannot afford to be spending time and money on the wrong customer accounts. So we see business leaders paying more attention to segmenting their customer markets, and targeting their approach and spend accordingly. Which customers buy which products and services? Do they always insist on discounted pricing, pay list price or are they willing to pay premium prices if the extra value is there? Is your company one of their various suppliers or is it their primary or sole supplier? Who else do they buy from and why? Is it because of price, convenience, loyalty or some other factor? What is the longer term potential for each customer in terms of buying additional products, higher end products, higher volumes of the same product, etc?

As can be seen from above, there are numerous different types of customers each one having different needs, buying habits, preferences and motivators. And each one of them requires a different approach for attracting, keeping and growing your business with that customer. For target customers and target segments, you need to identify the unique value proposition you can offer that will make that customer choose you over other suppliers or providers. So business leaders need to think about not only how their customers differ (segmentation), but what their customers want (value), and how the company can make its offering more valuable than the competition's offering (differentiation).

Organizational Drivers: There is a direct parallel for segmentation and differentiation when it comes to your employees. One thing we saw this year was an increase in the number of companies who took a more selective approach to reducing headcount. In prior downturns, companies that had to reduce their headcount typically cut the most junior people or cut people in functions that were being eliminated. This time around, we saw more companies using performance and skills as part of their criteria in an attempt to hold on to the more talented and versatile employees. While these decisions clearly have risk, it is a vital balance companies must make if they are to succeed. That may mean not making the most easily defensible decisions or not making the most convenient decisions – but making the *best* decisions – period.

We urge business leaders to at least annually review the company's talent and identify those who are the top performers, high-potentials (HIPO's), key or pivotal talents, performance problems and so on. Then a specific talent plan can be developed and implemented to assess and effectively manage the risks related to each employee segment. Does the company have HIPO's blocked by under-performing managers? Are their development plans actually being implemented? Are ready successors identified for key positions? Are they at risk? Is the company moving top talent into its high-growth potential markets or businesses? Is it taking too long to address or shed problem performers? All of these are key issues which will either enhance or dilute your ability to effectively execute your strategy.

Another area that talent plan should address is the value proposition your company wants to deliver to its employees. What can employees expect from the company in terms of their growth, challenge and earnings potential? What is it the company offers them that will make them want to work for you instead of working for some other employer? What would make them want to stay? And does it differ for different employee segments? It's just like the customer value proposition discussed earlier – but this one applies internally.

In addition to describing what the company can do for the employee, leaders must create or clarify, communicate and implement a message around what the company expects in return. We continue to see companies tolerate a sense of entitlement, mediocrity and general malaise from employees even at a time of record unemployment, bankruptcies and business consolidations. There has never been a better time to redefine what it takes to be part of your company's future organization and recalibrate employees against that new, higher standard. Companies can ill afford to have marginal or disruptive employees on board when every dollar spent must be optimized. Identifying and weeding out the problems must be an on-going process providing you ample opportunity to motivate and promote the stronger performers.

Opportunity 4 – Changing and Leveraging Culture

Business Drivers: We find culture to be a frequently misunderstood and mismanaged growth driver or enabler. Leaders often have a blind loyalty to their long-standing culture thinking "we can't abandon the attributes that got us this far." What they don't often understand though, is the difference between culture and tradition. Simply put, tradition is something a company does because they have always done it. But a culture can and must change with the times or it will eventually become a disadvantage. The best culture is the one that holds on to the traditions that are still effective and jettisons those that are not – replacing them with new practices.

While each company's culture is different, when we look across companies of different sizes and in different industries, it's interesting to see how common their wish lists are. In general, they all want:

- An organization that can quickly adapt to changes in the economy or customer markets.
- Leaders who make good decisions in the face of ambiguity, optimize the return on every dollar spent, and continually upgrade the organization's talent and capabilities.
- A workforce that thinks like owners, connects to the company's goals on a personal level and is driven to execute.
- Everyone in every function at every level thinking about ways to beat the competition, better serve the customer, make more money and lower the company's costs.

Building that type of culture, one that continually adapts to and capitalizes on the changing external landscape, is quite difficult. But many of the steps described in this article can help a company get there.

Organizational Drivers: Just as we must continually challenge and refresh our culture, we need to also continually challenge and refresh our talent base. Companies need to build, communicate and implement an on-going talent management process that continually identifies and evaluates opportunities to move talent into and out of the organization. In this process, the organization is always recruiting and looking for people who can bring additional or new strengths to the company. In effect – it's a continuous, year-round process of upgrading and recruiting talent. Instead of waiting for a vacancy to develop before we can hire – we create the vacancy so we can hire top talent when we see it.

Another key part of building a high-performance culture is a company's compensation practices. Instead of totally freezing salaries which so many companies have done, companies can and must still spend – but do so with more rigor. For example, one company we worked with had given over 95% of its employees some type of merit increase over the past three years. And with merit budgets that ranged 2.5 – 3.5% for this company – the money just didn't go very far when allocated to that many employees. This past year they still gave out merit increases and they only spent 2%. The real difference was that less than 50% of their employees got any kind of increase this time around. But, those individual increases were much larger than they had been in previous years.

This company is clearly becoming a pay-for-performance organization and is seeing meaningful progress toward becoming a culture noted for its effective execution. Was it a significant change for employees and managers to make? Yes. Did it take some intense communication and education to set expectations and train managers on the required decision making? Yes. Are their financial results and employee productivity improving now? Yes. Considering that the average company has 60-80% of its operating expenses tied up in people costs – anything leaders can do to make those people more productive – goes straight to the bottom line.

Conclusion

As we noted at the beginning of this article, successful companies not only address both the external and internal growth drivers, but also address the linkages between those drivers. We hope you seize the significant opportunity that exists in these four areas, and have a better idea of what it takes to link and leverage them. To summarize, this current recession, and the hopes of a correction in 2010, present an ideal opportunity to review and sharpen your approach to strategy and implementation through:

- A rigorous planning process and resultant strategy, with an organization that's aligned to, able to and accountable for executing that strategy.
- An organization that is structured top to bottom and end to end for efficiency, agility and creating customer value.
- A progressive and proven approach to segmenting and leveraging the various sources of customer value and organizational talent.
- The management guidance and tools needed to drive and enable the attraction, development, engagement and retention of that value and talent.

We may never have a better chance to redefine "business as usual" and use it to propel future growth.

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About the company: *Centric Performance works with small to medium sized public, private and non-profit organizations to help them achieve their operating goals and growth plans. We do this by identifying, evaluating and improving their efforts and results in four areas proven to create stakeholder value:*

- *Strategy, Leadership and Organization Effectiveness*
- *Optimizing the Customer Experience*
- *Human Resource Practices and Processes*
- *Business Transition Planning and Implementation*

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