Strategic Growth and the Board

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Greetings!

It's almost a truism that a successful business is a growing business: growth increases the value of the business, facilitates career development for employees, opens up new opportunities for innovation and improved margins, and creates jobs. Yet growth can be elusive, even in businesses that are otherwise successful.

The reasons for this are multiple, but sometimes it's because "growth" as a topic isn't getting the attention it needs - and deserves - from the Board. It often gets pushed off the agenda by governance and oversight issues, a focus on cost reduction, or (paradoxically) the search for acquisitions to make up for failed organic growth efforts.

At our recent breakfast seminar, we had Antony Broadbent set up a discussion about growth. I've known Antony since we were both at McKinsey, where he was generally regarded as the best analyst of his time. Since then, he's been a client, a friend, and a thought partner. When I heard he had recently returned to consulting , I knew he was the right person to kick off a discussion on this important topic. It turned out to be such a good discussion, I thought I'd share some of the key points Antony made.

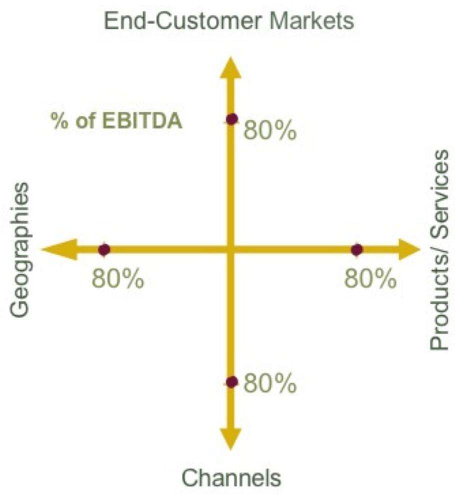
If, like many Board members, you know growth is important, but aren't always sure where best to look for it - then you should read this. Or, whatever your role, if you are thinking about growth and how to create it.

Thinking about Growth
I've tended to think about growth as being either "organic" (without acquisition) or "inorganic" (through acquisition). One of the key points Antony made was that there's a different, and better, way to look at it. Core (in the heart of where you make most of your money today) or non-core (outside that heart). When you think about it that way, it seems almost obvious: if there's any potential left in the core, it is a higher odds bet for profitable growth than non-core.

Now you might be thinking, "that's all well and good, but how do you figure out what your core is, and what do you do if you can't grow any further within it?". Good questions. Here are some of the points Antony made in response.

1) Defining the Core
Clearly, there's no hard and fast rule about what is or isn't in the core of a business. But you can bring some facts and analysis to bear that shed light on the topic. It's based on the well-known 80/20 rule.

The first step is to identify the key dimensions along which you can segment your business: products or services, geographies, end-customer markets, channels, etc. These will vary by type of business, so it requires a bit of careful thought to decide what they are. Then find where the 80/20 point is on each - in terms of earnings before interest, taxes, depreciation and amortisation (EBITDA). Inside those limits is a pretty good starting point for where your core is.



Obviously, there's a need to apply common sense, etc. - but this does give a better basis for discussion than simply opinion. As an example, for some businesses, it's a bit of a surprise to find that the current core is very different from where the business started.

2) Assessing how much potential is left in the core
You can't really know how much potential there is left until you try to get it. But, a bit like prospecting for oil, there are signs that give you a sense of what might be out there. For each of the dimensions, there are some questions you can ask and (for many of them) find facts to help you answer them.

Just taking the "end-customer market" dimension from above, it's questions like:

- How many potential customers are there within our "core" profile?
- Do we have high customer churn or low loyalty?
- Across our customers, are there share of wallet disparities?
- Do we have customer satisfaction issues that we could resolve?
- Are there untapped cross-selling opportunities?
- Do we have "funnel gaps" (e.g., awareness to trial, trial to purchase) that we could close up and get more customers to the bottom of the funnel?

These questions can help gauge the magnitude of the remaining potential, and they often point towards specific ways to capture more of it.

3) Extending beyond the core
There are real dangers in extending beyond the core. Companies often misunderstand what their strengths are, and how far they can be stretched into new areas. But, there are also many examples of businesses that have successfully gone outside their core. The key steps are to be realistic about what you are good at, and the more concrete and specific that is, the better.

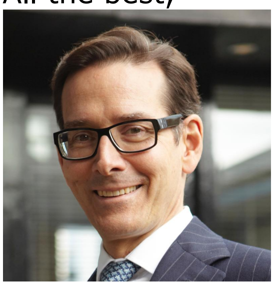
Conceptual ideas like "we are good at things people buy at the checkout" can lead you far astray, as happened to Gillette when they decided to expand out of shavers into batteries. A lot of their strength was in the shaver brands they had, and the associations in their customers' minds of what those brands meant. That didn't extend very well into batteries.

Once you have a solid fix on what your strengths are, try to extend along one of the dimensions at a time, while maintaining and utilising the strengths you have on the others.

Antony covered additional points in the session, and if we had time I'ms sure he could have covered even more. He and his colleagues at Blue Ridge Partners have literally written a book on it (How to Grow a Business: Insights from Working with Over 300 Companies). If you would like a copy, let me or Antony know.

As ever, I'd be interested in your thoughts and comments.

All the best,



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We hold invitation-only breakfast seminars 4 times per year, in which we

Tussle at the Top

Breakfast Seminar 22 October 2013

present new thinking on issues of importance to business leaders. In our next event, to be held on 22 October 2013, we will explore the theme "Tussle at the Top - evolving roles around the top table". This is based in part on research we started at the beginning of this year, looking at how organisations are changing their top teams to be better able to respond to an increasingly fast-paced and unpredictable environment.

While we already have a very good group of participants assembled, we do have a few more seats available. If you know someone who might be interested in joining us, please let me know.

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