How to Grow a Business

Insights from Working with Over 300 Companies

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In their quest to create value, many corporate leaders turn first to productivity improvement, personnel reductions and other cost cutting activities. All are familiar actions, particularly to those company leaders who navigated the turmoil during the economic downturn of the last decade.

However, a preponderance of studies and evidence points to revenue growth as the largest single driver of shareholder return and corporate success.

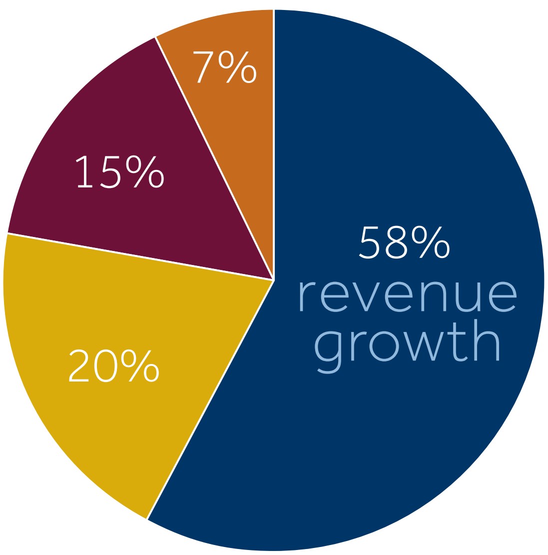


Chart 1: Sources of Total Shareholder Return[1]

Top-quartile performers, US S&P 500, 1990-2009
For a five-year holding period

- **Revenue Growth**
- **Cost Reduction/Margin Expansion**
- **Multiple Expansion**
- **Free Cash Flow Improvement**

In our work with more than 300 mid-cap to Fortune 500 clients over the past decade, we've seen what it takes for companies to accelerate profitable revenue growth. This article shares our insights from these experiences. We highlight our learning on how to turn growth from an art to a science and describe a step-by-step process for assessing, implementing and capturing the value of growth opportunities.

If revenue growth is such a compelling driver, why aren't more CEOs zeroing in on this potent source of value creation? To start, less than 1 in 5 CEOs have direct experience leading a sales organization[2], the nucleus of revenue growth for most companies.

Compounding this lack of direct sales leadership experience is a dearth of standard sales and marketing metrics that would highlight the effectiveness (and ineffectiveness) of these functions. Unlike functional units such as finance, information technology and operations, sales and marketing do not have a standard set of metrics that shine a light on areas of strengths and weaknesses. All companies measure the output of sales and marketing — revenue — but few measure the inputs and activities required to produce revenues. As a result, assumptions and intuition tend to guide management decision-making more often than accurate data. For many CEOs, sales and marketing seem a bit like a "black box" whose tangled inner workings appear complex and easily broken if the wrong buttons are pushed.

So how can CEOs begin to make sense of the black box and find new ways to accelerate revenue growth? In our work with clients, we identified four primary actions that lead to profitable revenue growth. Tackled methodically, these four actions enable leaders to make the right decisions about which sales and marketing levers to pull for the most significant gains in revenue growth. We have seen companies double — even triple — in value by adhering to the following principles:

1. Focus scarce resources on the core of your business if attractive growth opportunities remain. If not, the core needs to be extended.
2. Establish a common set of facts and market insights from which impactful growth initiatives can be found.
3. Select the most powerful growth initiatives and get an "A" on implementing three or four, rather than a "C" or "D" on 10 or 12 of them.
4. Master the science of making change happen within your organization.

Action #1: Focus scarce resources on the core of your business if attractive growth opportunities remain. If not, the core needs to be extended.

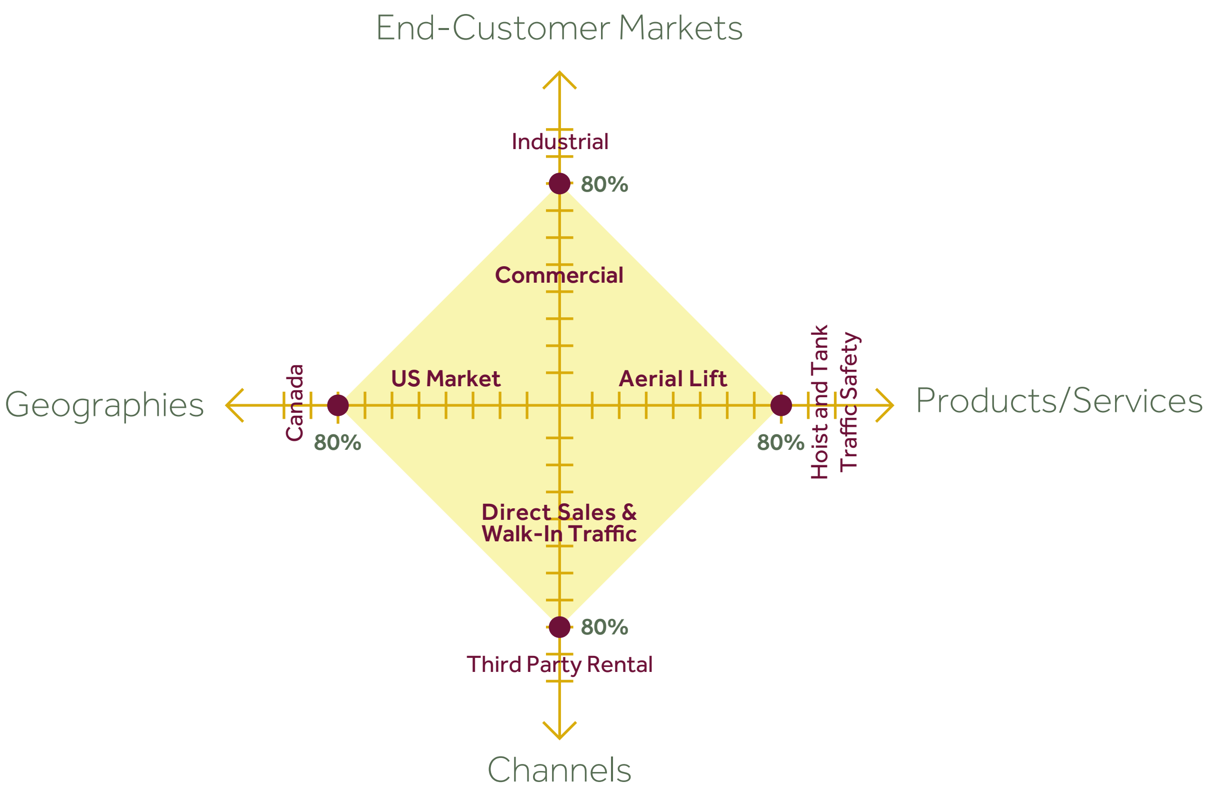
When searching for growth, many CEOs turn to opportunities outside the core of their business. These include entering new end-customer markets, launching entirely new products or service lines, using new sales channels or expanding into new geographies. These may be exactly the right steps for the company to take if its core business has been optimized and no longer contains attractive growth opportunities. However, we frequently find that just the opposite is true: many companies have not optimized the value of their core and we often see significant remaining growth opportunities.

To optimize the core, companies must first define it. This is not as easy as it sounds. When we meet with clients, we frequently discover there are as many definitions of a company's core as there are executives in the company. When this is the case, how can a CEO focus investment priorities and challenge activities outside the core that might be more distracting than value creating? Growing the top-line often starts by bringing together company leaders in a workshop environment and reaching agreement on a definition of the core.

We find this exercise is best done using a spider chart with axes that include, at a minimum, end-customer markets, products/services, channels and geographies. Starting from the center of the chart, plot each end-customer market, product, channel and geography beginning with the largest EBITDA contribution followed by the rest in descending order outward along each axis. When complete, determine the point that represents 80 percent of total EBITDA along the different dimensions. The resultant diagram will convey, at a glance, a company's core.

Chart 2: Sample Spider Chart for Construction Equipment Rental Company

80% of an organization's EBITDA comes from the shaded "core" while approximately 20% of profits come from the other aspects of the business.



We recommend doing this exercise for both the current core of the business and then, using the company's strategic plan, preparing a similar diagram for the business as it is expected to look three to five years from now. Growth initiatives must support both current and future cores.

After the core is defined, the central question becomes "Is there misalignment between a company's scarce resources and the application of those resources to the core of the business?" To determine whether such a misalignment exists, start with the same

10 Critical Questions Many Companies Can't Answer

1. How have the dynamics of our market changed...are we gaining or losing share, are buyer values changing, are there game-changing technology trends, are there foreign threats?
2. What do customer profitability and product/service profitability tell us about where we are making and losing money?
3. What does the voice of the market say about the relative quality of our products, brand and sales team?
4. Why do we win and why do we lose?
5. Where is our sweet spot in the market?
6. What percentage of our revenue comes from new customers?
7. Are pricing inefficiencies leaving margin on the table (too low) or causing us to lose volume (too high)?
8. Is the company properly structured to interface with customers...key accounts, low volume/low margin customers, distributors, digital touch points?
9. What % of time do sales people spend on customer-facing activities?
10. Are sales incentives motivating the proper behavior from the sales team?

spider chart used to map the core of the business. Plot each scarce resource — such as management mindshare, capital, expense budgets, critical personnel, R&D investments and IT investments — along the axes of the chart. Is less than 80 percent of any essential resource dedicated to the core of the business? If so, there may be an opportunity to eliminate distractions — those activities outside the core that are consuming scarce resources but are not high contributors or high potential aspects of the business.

The definition of the core and identification of any significant use of scarce resources outside the core are foundational steps for developing a growth plan. The exercise is both essential and illuminating — it can define distractions that should be eliminated and refocus the leadership team on the core of the business.

Action #2: Establish a common set of facts and market insights from which impactful growth initiatives can be found.

With the core of the business well defined, how does a company then find new growth opportunities within it? To answer this question, leadership teams need a fact base about their revenue performance and they need candid input from the external market — customers, lost customers, lost prospects and others. But too often leaders believe they know the answers to key questions about their company (see sidebar) when in fact their answers are informed by assumptions, anecdotes and/or old information.

Part of the problem is something we mentioned earlier: every functional unit of the company, other than sales and marketing, has its own version of the 10 Critical Questions and they must know the facts to answer them. CFOs, for instance, can answer questions about margins, debt ratios, covenant compliance and receivables. Remarkably, the same fact set does not exist for most sales and marketing organizations, leading to differing opinions about a company's problems, their root causes and the changes required.

Since successful growth companies select their growth initiatives based on a deep understanding of both internal and external facts, sales and marketing leaders must gather these facts. They then can use the data to identify potential actions for improving top-line revenue performance. There are three aspects of building the fact base to better understand a company's revenue performance:

1. *Analyze internal metrics to assess sales and marketing performance.* Every sales and marketing organization must track three types of metrics:

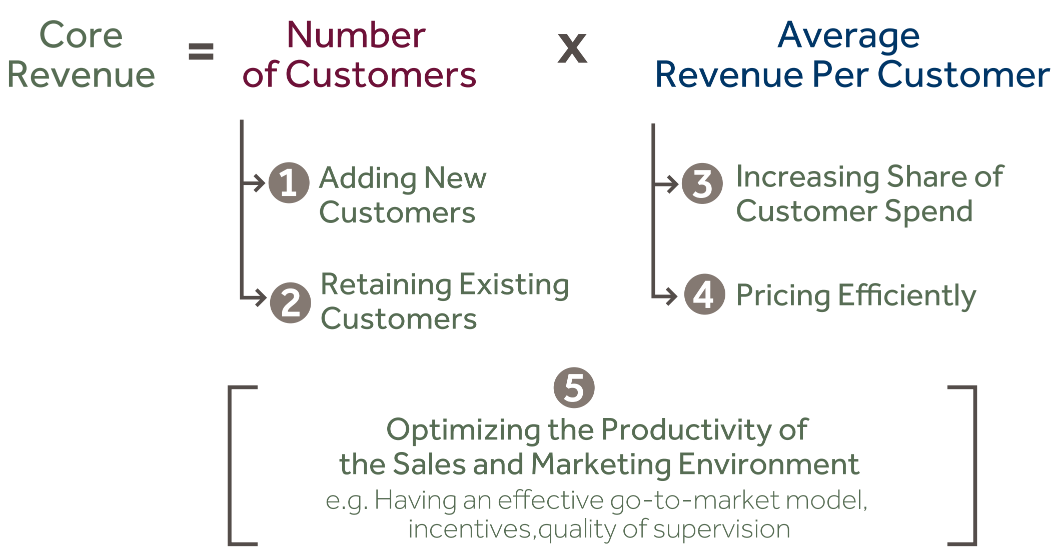
    - **Input metrics**, such as the perceived quality of the company's products/services as measured by customer evaluation, and the quality of the sales and marketing organization as measured by objective performance criteria for each level and skill set.

    - **Activity metrics**, including percent of time devoted to customers/prospects, number of sales calls completed and number of proposals generated.

    - **Output metrics**, including revenue, margins, product/service profitability, customer segment profitability and market share.

    To help organize and understand these internal metrics, we created the Revenue Equation™, which encompasses five categories of sales and marketing performance metrics related to deepening the core of the business.

Chart 3: The Revenue Equation™



We recommend tracking specific data within each of these five categories (a complete list of recommended metrics is included in our book, *How to Grow a Business*). For example, in category 1, Adding New Customers, the standard metrics include the following:

- Number and economic value of new customer wins
- Number and economic value of lost proposals/bids
- Win rate on proposals/bids
- % of revenue last month/quarter from new customers (added within last 12 months)
- % of new customer revenue last month/quarter coming from the highest priority market segments as defined in the strategic plan
- Mix of new customer revenue by source/channel
- Average sales cycle time (qualified lead to close)
- Probability-adjusted financial value of leads in the pipeline and value of new leads added last month/quarter

An organization's standard set of monthly/quarterly metrics can be created by selecting from our list of recommended metrics and supplementing this list with other company-specific metrics as appropriate.

With the performance metrics in hand, growth opportunities should become apparent. For instance, we worked with a packaging company that had its sales reps keep time logs for 30 days so leaders could understand how they were spending their time (a metric that falls under category 5, "Optimizing the Productivity of the Sales and Marketing Environment"). Based on the time log, sales leaders discovered reps spent only 36 percent of their time on direct customer/prospect selling. By transferring administrative and process burdens from reps to customer service and sales support personnel, reps increased customer-facing time to 56 percent while slicing process-related time in half. The result: sales per rep increased by 10 percent within six months following implementation of the sales support function (with more improvement expected).

2. *Benchmark sales and marketing performance against competitors or similar companies.* While metrics can bring new insights on their own, they become truly powerful in identifying growth initiatives when they are placed beside the same metrics from competitors or other similar companies. For instance, internal metrics might reveal that 5 percent of Q4 revenues came from customers who were new in the last year. This fact alone can be useful, particularly if it can be compared to prior quarters. However, it becomes far more powerful when compared to other organizations. If the same metric at competitive companies averaged just 2 percent, it may reveal new customer acquisition as a distinctive strength. On the other hand, if 8 percent is the industry norm, the gap should prompt questions such as: How do we get from 5 percent to 8 percent? What would be the economic impact of doing so? Could this represent one of the highly impactful growth initiatives for our company?

Beyond comparing the numbers themselves, it is also valuable to benchmark sales and marketing processes against a set of best practices from other organizations. Based on our client work, we isolated best practices in 10 areas such as lead generation, optimizing win rates and motivating sales force behaviors. These form the foundation of our 100 Behaviors of High Performing Revenue Engines™ tool, a template that helps identify gaps by allowing a company to score itself against 100 specific behaviors and compare against the performance of highly successful growth companies.

3. *Gather external perspectives from current customers, lost customers, prospects, channel partners, competitors and others*. We find these perspectives often reveal that many of a company's long-held assumptions about the market are false. Most of the 10 Critical Questions Many Companies Can't Answer (see page 4) require talking with external groups as it is impossible for a company to know, for instance, why it wins or loses (question #4) unless it gets out into the market to ask the right questions of the right people. In all, organizations should strive to hear from nine voices in the market.

Chart 4: The Nine Voices of the Market™

Many companies assure us they already gather external perspectives, but often we find they settle for shallow, inoffensive answers rather than digging hard for the truth. For instance, take the question of "Why do we win and why do we lose?" When a rep goes back to ask his prospect why he lost, most prospects will only share a portion of the reason in order to avoid a potentially difficult conversation. Prospects say things like, "Your price was too high" or "The decision was made by someone else in the organization," when the real reason may be that the prospective buyer felt the sales rep did not understand his needs or the sales team seemed poorly coordinated.

Over time, these kinds of inaccuracies form a set of corporate myths. Decisions are then made based on this false — or only partially correct — information. Reliance on corporate myths as truth masks opportunities for revenue growth; seeking the truth from The Nine Voices of the Market™ will reveal those opportunities.

Action #3: Select the most powerful growth initiatives and get an "A" on implementing three or four, rather than a "C" or "D" on 10-12 of them.

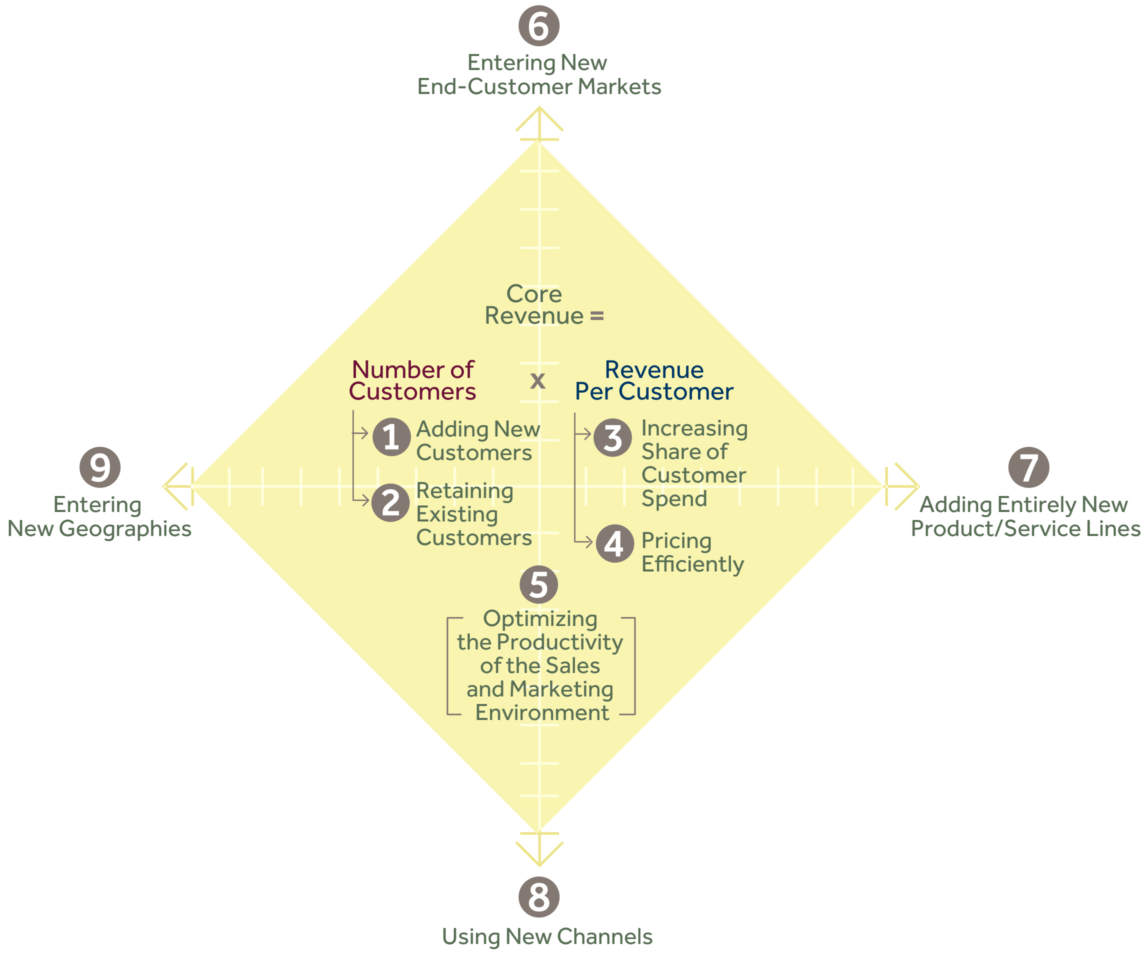
Armed with a rich set of metrics and external market perspectives, companies will see many opportunities to accelerate revenue growth. In their eagerness to grow the top line — or in their uncertainty as to which is the best growth route — many organizations will decide to tackle 10 to 12 concurrent initiatives.

However, no company can successfully implement a dozen changes at once. Such an effort spreads management and talented change leaders too thinly across many moving parts. The sales and marketing organization is pulled in too many new directions. This usually results in scoring a C or D in implementing these initiatives and a high probability that sales and marketing behavior will quickly revert back to the old ways of doing things.

In contrast, successful companies are highly disciplined in selecting the three or four most impactful initiatives and successfully implementing them before launching additional initiatives. This technique of tackling initiatives in waves requires (a) the ability to identify impactful growth initiatives, and (b) a method of prioritizing the change initiatives so they can be tackled in waves of three to four at a time.

To identify impactful growth initiatives, organizations can leverage the same five-category framework suggested by The Revenue Equation™ plus four categories associated with expanding the core of the business. These represent the nine categories for finding opportunities to accelerate the growth of a business.

Nine Categories of Sales and Marketing Revenue Opportunities



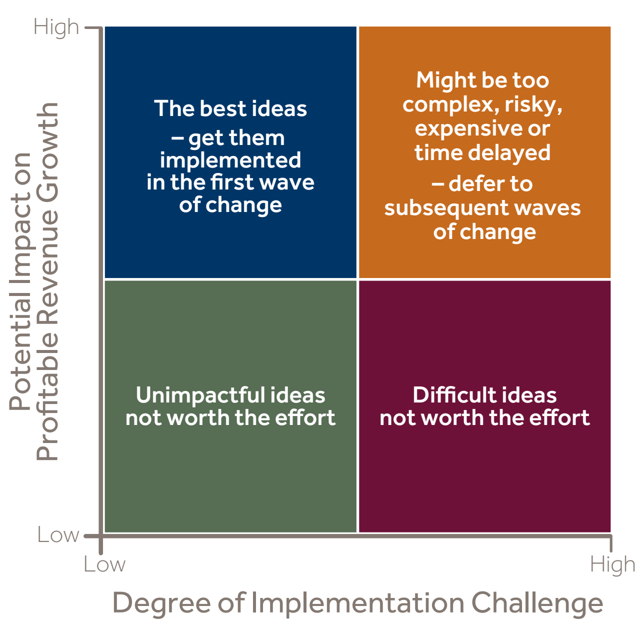
The book, *How to Grow a Business* describes many potential growth initiatives in each of these categories. Here are just some examples:

1. Adding new customers
   - Use more lead generation techniques and find better ways to nurture prospects who aren't ready to buy
   - Clearly define responsibility for "hunting" and provide the support required to maximize hunter effectiveness
2. Retaining existing customers
   - Share the company's knowledge capital and points of view with customers
   - Monitor behaviors that suggest relationship erosion

3. Increasing share of customer spend
    - Focus sales time on "splitters" where customer satisfaction is high but share of spend is relatively low
    - Formalize distinct roles for field sales reps, inside sales reps and account managers ("harvesters")
4. Pricing efficiently
    - Understand your total cost-to-serve and incorporate this data into pricing decisions
    - Monitor price points for identical products or services across customers
    - Monitor contract compliance
5. Optimizing the productivity of the sales and marketing environment
    - Ensure incentives are motivating the desired behaviors and outcomes
    - Effectively manage sales force turnover
    - Effectively onboard new sales reps to drive faster revenue production and return on sales assets

These initiatives are meant to serve as thought starters for finding your list of revenue growth initiatives. Evaluate the initiatives and their priorities based on their potential impact and the effort required to implement them. A 2x2 matrix (see chart 6) is useful for this exercise.

Chart 6: Framework for Selecting the Most Impactful Growth Initiatives



Initiatives that fall into the top left box — high potential for profitable revenue growth with a low degree of implementation challenge — should be implemented in the first wave of change.

Here's one example of how it all fits together. After gathering detailed sales and marketing metrics, an engineering design software company noted a decline in the number of new customers signing on with the company. Leaders sought insights from The Nine Voices of the Market™ and discovered a critical shift in buying behavior. While the company was perceived to have excellent products and a superior reputation, its customers' buying decisions, long made at the director level, were now being made at a more senior level where competing firms had stronger relationships. The sales team's selling skills, ideal for director-level buyers in the engineering department, were inadequate for conversations with senior executives.

Based on these findings, the company plotted potential solutions on a 2 x 2 matrix. It then implemented the three best solutions by (1) hiring new enterprise-level sales reps, (2) becoming a strategic/solution seller and building relationships at the right customer organizational levels, and (3) using a broader range of lead generation techniques and implementing new ways to nurture prospects who were not ready to buy. In response, the company's growth rate nearly doubled.

We cannot overstate that the software firm's success was due to the their discipline in both identifying growth initiatives based on facts and then successfully implementing the three most powerful growth opportunities before launching any other change efforts. Many of the steps that lead to significant revenue growth sound very straightforward, making it tempting to launch many initiatives at once. However, the companies with the best results are the ones who narrow their focus to just three or four — or even fewer — initiatives. This takes extraordinary discipline.

Action #4: Master the science of making change happen within your organization.

It is one thing to help leaders identify the best actions that will lead to profitable revenue growth; it is quite another to successfully implement those changes. The latter is the toughest aspect of revenue growth. In our experience, only 30 percent of the challenge is determining what to do; the other 70 percent is actually doing it.

The failure rate of change initiatives in sales and marketing is very high, in part due to these departments' cultures of autonomy. Traditionally, sales reps are given a set of customer targets, trained on the company's products and told to figure things out for themselves, resulting in myriad non-standard approaches. Furthermore, the significant variable component of sales compensation plans encourages a culture of independence. The message repeatedly sent to sales reps is: "It's all up to you." These factors create employees who are highly self-regulating but very difficult to change.

While volumes have been written on change management — and it is not our intent to try to reproduce that here — our experience has taught us there are four primary questions that must be addressed for a change initiative to be successful within sales and marketing:

1. *When is the time right for implementing a major growth initiative?* Timing is crucial. If a company is consumed with other initiatives such as post-merger integration, product quality problems or litigation, the company's attention and resources may be too consumed to successfully undertake a revenue growth program. This is also true if the CEO does not firmly believe change is required and is not fully on board with the effort. We have seen many high-potential revenue growth initiatives stall or fail simply due to improper timing.

2. *How should the change management plan be mapped, to include starting and ending points as well as a clear map of what needs to change?* Even when the timing is right, the best change programs may not be clear. Change efforts need to be defined in terms of "Where are we going?", "Where are we starting from?" and "How do we get there?" Gaining clarity on the path forward demands leaders conduct a candid assessment of the starting point for the organization, clearly define the future end-state and then define the critical change initiatives required to reach the point of arrival.

3. *What are the most common barriers to successful change implementation in sales and marketing?* When implementing change related to revenue growth, barriers typically exist at three levels of a company: the senior leadership team, sales and marketing management, and the sales and marketing line personnel.

   Each level brings its own set of concerns. Senior leaders tend to worry about risk; they fear losing good reps and important customers if the change process isn't done properly. Managers, the front line leaders of a sales and marketing change program, are often consumed with achieving quarterly revenue goals and find it difficult to focus further downstream. Like senior leaders, managers also fear committing to new initiatives due to worries that a disgruntled rep will leave the company or a major customer will be lost.

   At the sales and marketing line personnel level, there is usually a litany of protests. Reps worry change will negatively impact their income due to increased quotas, smaller territories or a change in the incentive plan. They worry the change process will consume time that could be spent on customer-facing activities or they just simply disagree with the change because they think they know the market better than company leadership. To successfully introduce a change, leaders must anticipate each of these barriers and create a plan for overcoming them.

4. *What are the most useful techniques for overcoming these barriers?* One of the most powerful techniques for overcoming these blocks and implementing meaningful change in the sales and marketing organization is to begin on a small scale with a pilot implementation. While there are occasions when proceeding immediately to a full

implementation is the right decision, doing so without first having piloted the change often invites large-scale problems. These problems can undermine effectiveness and employee buy-in. Keep in mind that a pilot is different than a mini launch or Wave 1 rollout. A pilot is about testing an initiative to ensure it is the right idea and seeing what the real impact is going to be. Pilots also enable a company to fine-tune anything not working quite right before rolling it out to the organization as a whole. A phased launch is a better choice when your ideas don't need more testing and validation but the significant scope or degree of change calls for a staged approach to increase the odds of success.

Chart 7: Differences Between a Pilot and a Full Implementation

	Pilot	Full Implementation
Purpose	To test and refine the foundational components of the growth initiative	To roll out an already proven initiative throughout the organization
Scale	Small	Large but may still be broken into phases
Investment mindset	Invest as little as you need to prove out your idea	Invest as much as you need to ensure success and to scale
Approach with end users	"Help us get this right"	"Others within your organization have already defined and proven this"
Most appropriate description	Rapid iteration of initial ideas	Organizational change
Stay away from	"Rote acceptance"—need challenge and innovation	"Individual creativity"—need compliance with an already proven idea

A phased roll-out is often appropriate following the pilot. The deeper the change and more risk to an organization's ongoing business, the more a phased rollout, rather than a full-scale launch, should be considered. In a phased launch, change is executed in steps based on testing that was done during a pilot.

Throughout the entire change process, communication is essential. Once the leadership team grasps the vision, it is essential that those impacted by the change understand the details. Who will do what things differently and how will individual jobs will be affected? Keep in mind that lower levels of the organization are most focused on what they and others around them will do differently. This kind of granular detail, to include explaining new metrics for activities and outputs, is essential for achieving support and buy-in from the employees who must change their daily routines and behaviors.

Change is most successfully implemented when there is a single leader of the change program to oversee all the moving parts and keep everyone focused in the right direction. This is especially true when a company is managing multiple change initiatives; understanding and managing the interdependencies of those initiatives demands a dedicated program manager. The field organization should understand that one person is in charge of the whole program and is accountable for its success.

When all these elements align, the results can be extraordinary. We have seen dramatic improvement in revenue and margins at organizations which followed these four steps — focusing on the core of the business, gathering the right facts, choosing three or four actions, and implementing change effectively. The best news: when done right, the process becomes a virtuous cycle. Energized by their success, employees will be more willing to embrace other changes, which in turn will lead to continued growth. Unlike cost-cutting, effective revenue growth initiatives have unlimited potential to rejuvenate the business.

Give this four step process a try and tap into this potent source of value creation.

[1] Threading the Needle: Value Creation in a Low-Growth Economy (BCG, 2010), Eric Olsen, Frank Plaschke and Daniel Steiter

[2] "Leading CEOs: A Statistical Snapshot of S&P 500 Leaders" by Spencer Stuart, February 2006.