

Discipline: Business Management
Why Is Growth So Hard?
**Cutting expenses is painful, but straightforward; finding a strategy to grow your
business is much more difficult**

Illustration by
Stuart Bradford by Geoffrey Moore and Richard Moran
May 2003, Issue 19
Story contents

It's a scene that's played out in a thousand conference rooms in the past six months. The executive committee has finished its latest round of cost-cutting activities. Every vendor has been squeezed, every lease renegotiated, every dollar of capital expense cut. Not one of the people who quit in the past year is being replaced. The budget is finally balanced, and the business might just fall on the black side of breaking even. Then the CEO says, "OK, everyone, it's time to turn 100% of our attention to growth."

Boards of directors are beating the stuffing out of CEOs this year to find a way to grow. Sales teams are pounding the pavement. The federal government is studying ways to fire up the economy. But in the end, not a lot of growth is happening.

Why is growth so hard to achieve? In our years of observing senior management and board meetings, we've identified eight impediments to growth. We'll share them below and then offer a plan for how CIOs and other senior executives can get beyond them and help their companies deliver what the market demands.

The eight roadblocks

The degree of difficulty is too daunting. It's just easier to stay the course, cut expenses incrementally every quarter, and hope the economy comes back and all ships rise again. Hope is a strong driver, and too many management teams convince themselves that things can't get worse, that orders will pick up again any minute now, that they'll gain market share because their rivals are in even worse shape. Working toward a growth target requires new ideas, new products, and new ways to collaborate. It may require a change in leadership style and organizational structure. Compared with "as is," growth is way out of the comfort zone.

A fatalistic approach to growth targets. Too many executives at too many companies believe that growth numbers are imaginary, simple increments over last year's numbers wishfully picked out of thin air. So no one pays any attention to them. The sales team convinces itself that management doesn't really believe or expect the number it has published. Don't believe us? Do a simple survey in your own company. Ask some salespeople to rate their level of confidence that you will hit your growth target on a scale of 1 to 10, with 10 being the highest. If yours is like many companies we've worked with, we'd bet the number will be 4. Since people don't take growth targets seriously, the

numbers don't act as growth drivers. If growth comes, it's an accident of good products and lucky timing.

Too much analysis and not enough creativity. Most businesses today find themselves in rapidly changing environments, inundated with confusing signals and data from competitors, customers, and partners. We talked recently with a client that had decided to pursue global growth, but found itself mired in the choice of countries in which to make investments. While there's an infinite amount of data available on the climate of receptivity for American products in Asia versus South America, no amount of analysis could guarantee a correct answer. The executive committee split into factions, each presenting data that showed it was right and the others wrong. In the end, rather than risk taking the wrong path, the company pursued no path at all.

Investing at the worst possible time. Our grandfathers used to point to properties they could've bought for ridiculously tiny sums during the Great Depression. The climate today is not much different. Often, the opportune time for investing for growth is just when all your competitors are holding onto their marbles. Still, the average company holds back, unable to solve this two-sided conundrum: How can we invest in growth in a bad economy? And if growth is already occurring, why invest?

The sales force doesn't know what to do. The sales team is usually the front line in the battle for growth. But salespeople are quick to say they're only the channel, not the growth engine. In tough times they're more likely to keep selling the products and services that have worked in the past rather than gamble on those with unproven success. While urging their salespeople to sell the new, cool stuff, companies rarely offer extra incentives to compensate for the risk. And it's often unclear to the sales team how important the effort is to stimulating growth.

Growth often means going global. Many companies are trying to grow in uncharted territory; witness the rush to get Chinese basketball star Yao Ming as a spokesman. They believe that the big pockets of growth in the near and long term lie in international markets—and indeed, it's far easier to grow sales by 100% when you start from a base of zero. But going global involves big investments and high risk—two things not a lot of companies are willing to sign up for today.

No one owns it. When the "G" word comes up, it's rarely clear whose responsibility growth is. It's the CEO's, of course, because the CEO is responsible for everything. But after that, where does ownership for growth belong? The head of strategy may talk about growth more than anyone, but that person often has trouble connecting strategy with operations. The head of research and development feels responsible for innovation, but rarely for growth. So who's responsible? Finance? Human resources? IT?

Blame is the default response. There are plenty of places to shift the blame when growth isn't happening. The economy, global instability, competitors lowering prices, employees not understanding the mission, management too focused on cost containment—the list

goes on. With so much blame to go around, it's easy to not focus on growth; the attitude is, let's wait it out, pull the covers up to our noses, and hope something good will happen.

CIO as quarterback

After reading a list like this, it helps to recall the great field marshal Ferdinand Foch. Faced with an impending military catastrophe, he cabled: "My center is giving way. My right is in retreat. Situation excellent. I shall attack."

There's no substitute for action, especially in a declining economy. The risks of commission, high as they may be, are paltry compared with the risks of omission. Despite the rationalizations, the more difficult the environment, the more important it is to focus not just on how to survive, but how to thrive. It's no accident that great companies get their starts in down cycles. The stark realities clear the field of all but the best. There are things every company ought to be doing now to prepare for the next growth cycle—and there's a role for every CIO in helping to jump-start a growth initiative.

Like every good initiative, growth begins with a plan. But a growth plan isn't just another business plan stuck in the credenza. It's livelier—full of risks and what-ifs. A growth plan is an algorithm, an IF/THEN equation. Without the "IF"—that is, trying something new and different—there will never be a "THEN."

The key goal of a growth plan is to nail down the factors that drive growth for your company. Significant growth is almost always derived from creating a significant advantage over the competition. Only a few variables are worth paying attention to here—what we call the power variables: disruptive innovation, product leadership, customer intimacy, and operational excellence. In a downturn, the two that work best for most companies to focus on are operational excellence and customer intimacy. Ask yourself: "What can we do to leverage this variable to stimulate growth?"

Any IT group worth its salt can affect these two factors in a dramatic way. Here's how.

Too many companies confuse cutting costs with operational excellence. They're not the same. The key measures of operational excellence are return on capital and revenue per employee. Think what systems and networks can do to improve those two ratios.

Dell Computer can probably cut costs as well as any company, but it derives its real competitive advantage from operational excellence—and it grows every quarter based on that advantage. Any CIO who can create interfaces to customers, suppliers, and vendors without human intermediaries will affect revenue per employee and growth—and can claim the role of growth hero.

Technology can turbocharge customer intimacy. It's being done right now at Accenture and IBM. Instead of selling products or projects, those two companies have built an infrastructure of technology that enhances collaboration and communications with

customers and partners. In a relationship that generates intimacy, customers are more willing to listen to pitches for additional products and services. Any IT group can do similar things with the right focus.

It's important to know which variables truly affect growth in your industry. They may include consumer trends, deregulation, incremental innovation, or new technology. Knowing how you can affect these variables and anticipating them will win you an integral role in setting a proactive growth direction. The IT group may be the only place where the data can be integrated to the point where a clear direction emerges. If there's no clear path, pick one based on operational excellence or customer intimacy.

Growth according to plan is the most difficult to achieve. The drivers are the most elusive; the competition is probably trying to do the same things; and rapid change is always required. That's due to a simple but little discussed fact: Plans never work. If you can embrace the truth that there's never a right answer, then you've taken the first step toward success. Navigating a slow economy is like white-water rafting: You have to make it up as you go along. The only sure thing is that if you do nothing, the boat will capsize.

Tell the truth about your capabilities. Once a plan's in place and the optimal direction is set based on growth drivers, it's time to define the capabilities required for success. Note that these may or may not be the same as what you currently have in place. The executive committee needs to honestly face the following questions:

Does our structure allow growth to happen or does it stifle growth and ideas that will generate growth?

Do we have the right leadership in place? Are we willing to go for growth, and do we have the skills to know a growth opportunity when it comes knocking?

Does our culture encourage growth or kill it? Do we bring in new people with the skill sets to help us grow?

Every cause needs a champion

Name and support a growth guru. There should be no lack of clarity around growth leadership. In fact, it's so important that you should charge someone with the responsibility and accountability for making things happen. The growth guru should be relentless in identifying opportunities and keeping growth at the forefront of the company's agenda. The guru collects and maintains a portfolio of killer ideas, presents them to decision makers and sponsors, and nurtures them until they're developed and making money. It's the guru's job to focus on ideas that extend, defend, and build the current portfolio or bring new products to new markets.

Who makes a good growth guru? CIOs are often good candidates, because they understand the leading-edge technologies that will shape the future, and they have the

skills to pull information and data together to create a direction. But personality type matters as well. You'll need someone who isn't afraid of change and is secure enough in his or her job to challenge the political establishment.

The CEO of one technology company we worked with appointed as its growth guru someone from the strategy group who was brash enough to try almost anything to move the growth line up. He wasn't the CIO, but he had many of the same skills and was chosen in part for his understanding of technology and ability to conceptualize the integration of many systems. Growth became his full-time job. He quickly gleaned a set of hypotheses from the operating and research people, tested them with data and informed opinions, and made some decisions. He's setting the growth agenda for the company.

You can't buy growth

Growth through acquisition doesn't count. While acquisitions can be an important way to grow, to a growth purist, they're not scoring opportunities. Growing by buying up someone else's customers is an expensive and ultimately unsustainable strategy and often takes your eye off the real target. For the CIO, it means using valuable resources to integrate diverse systems and people rather than to get closer to the market and produce the innovations that will give you a competitive edge. Though in the short term the additional revenue looks good, in the long run you'll still have to grow sales to those customers.

Whether you're the official growth guru or not, raising the bottom line is everyone's role. And CIOs can't allow growth to be a spectator sport. In fact, they may have some growth activities right under their noses. Every CIO ought to be doing the following:

Get out of the "no" business and find a "yes" or two in the closet. Most CIOs have spent the past few years beating the daylights out of staff, vendors, and consultants to cut costs. Chances are, you've heard plenty of pitches for growth ideas that you never shared with the rest of the executive team. Now's the time to look over all the recommendations you rejected in search of ideas worth pursuing.

Eighteen months ago, a software vendor we worked with came up with a top-line revenue idea for a customer, based on capacity loading. Its management team liked the idea so much, in fact, that it was willing to share the risk by agreeing to take payment when the gains were realized. Nonetheless, the idea was rejected. Recently, however, the customer's management team shifted its focus from cost cutting to growth. The CIO remembered the pitch, reconsidered it in light of the new initiative, and brought it to the management team, which agreed to give it a try.

Rethink your IT investment portfolio with an eye toward generating growth. Support growth initiatives; don't separate them from the day-to-day routine.

Take a chance by dedicating a portion of your IT budget to innovation. Being a leader means looking at technology as more than a way to cut costs. It means challenging your staff and changing your focus to generating growth rather than just acting as a placeholder until the economy comes back. Instead of evaluating the ROI of new technology investments based on how much they'll save, consider them as investments that must generate growth. Even if this is hard to predict and measure in the short term, have a clear idea of how the investment will improve innovation, product leadership, customer intimacy, or operational excellence.

Growth should be on the mind of everyone on the executive staff, especially the CIO. You can't just sit back and wait for the CEO to announce a direction. It's time to take risks, demonstrate leadership, and focus on positioning your company for the future. With a few ideas and a dash of creativity, growth can happen.

Geoffrey Moore is chairman and Richard Moran is managing director at The Chasm Group in San Mateo, Calif.