SETTING A COURSE FOR GROWTH
WHEN, HOW MUCH, AND HOW FAST

By: Edward A. Lopit

As 2010 begins CEOs are looking to the long term with an expectation of growth. Given today's business climate this is a daunting task. The economy is coming out of one of the most challenging periods in recent history. An uncertain future complicates decision making.

Setting a course for growth can be difficult and business success requires understanding, commitment and support of a diverse constituency of stakeholders and the organization as a whole. Utilizing an objective framework to guide analysis, build consensus, and facilitate communication can ensure you make the right call specific to when, how much, and how fast to grow and help you and your team achieve success.

I. THE CHALLENGE

Recently I've had opportunity to dialogue with CEOs about issues they encounter as they endeavor to drive business performance. As they look to the future they remain optimistic.

- *"We have a tremendous opportunity to expand and leverage our business model."*
- *"Our greatest challenge is growing."*
- *"Given the market opportunity we could double if we get in position to effectively respond."*

For these CEOs, and I suspect a majority of others, the expectation of long-term growth remains a given. The question they wrestle with today isn't if they expect to grow, they do. Determining when and how is the challenge. Push too soon and customers may not be ready to buy or the business may be unable to respond. Too late and an opportunity to capture market share may pass. Target a rate for growth that is too high and the business may not be able to keep up. Too little and opportunities may be lost. The cost of a misstep, both professionally and personally, will be high.

II. GETTING THE TEAM ON BOARD

Development and execution of growth strategy is complex and success requires commitment of all members of the business team. As everyone pulls together, sharing ownership of the outcome, movement becomes swift and efficient.

Commitment develops as people understand and buy-in to the course the business is pursuing. Opportunity for open and effective communication encouraging input and exchange of ideas is critical to this process. A dialogue is needed that includes more than setting a top line sales goal for the upcoming year as part of a budgeting exercise. People need an understanding of where the business is going and why.

III. CONSTRUCTING AN OBJECTIVE FRAMEWORK

Deciding when, how much, and how fast to grow is no simple undertaking. A business operates in uncertainty as its environment is constantly changing. Numerous factors impact decisions, many of which rest outside of the business' direct control.

Defining the organization's course for growth is the first step. It is the source from which all other operational decisions flow. Business development strategy, estimating needed production capacity, assessing the level of needed infrastructure, defining required competencies, and more will be dictated by this decision.

Given its broad reaching impact, the decision process should never be founded on intuitions of leadership alone. A systematic and objective framework is needed to:

- Reduce variables to something manageable.
- Ensure logic, rather than emotion, drives decisions.
- Foster clarity and understanding through common approach and terminology.
- Establish priorities consistent with your unique situation.

IV. Factors Dictating the Course for Growth

Of the nearly limitless factors that can come into play, two factors working in concert will have the greatest impact on your course for growth. These two factors are urgency for growth and breadth of opportunity presented within the existing marketplace. [1]

Urgency for Growth

CEOs need a firm understanding and ability to effectively communicate the level of urgency that exists for growing the business. Urgency in this context reflects both the organization's need for growth and the resolve exhibited toward achieving it. This sense of urgency sets both a pace of growth and a threshold for the amount of risk that individuals in the organization are willing to assume as they press forward.

When establishing the level of urgency it is critical that CEOs keep it real. In the past I've seen situations where the level of urgency communicated was inconsistent with actions that followed. For example, a CEO pumping up the level of urgency thinking this will motivate his team. Conversely, a CEO may underplay the true urgency of his situation in an effort to minimize team fears or concerns. Both of these strategies prevent optimum performance. The disparity between what is stated and actual decisions and actions taken will ultimately emerge. The result is a loss of leadership credibility and/or reduced effectiveness of the team as people speculate on the true nature of the situation.

A number of factors can fuel an urgency to grow:

- A need for sales to generate cash flows necessary to cover fixed overhead, operating costs, debt obligations, or anticipated equity distributions.
- Vulnerability from a dependence on one customer or line of business.
- An opportunity to press an identified advantage and capture market share from a weakened competitor.
- A new product offering that leverages existing resources or skill sets.
- Need to demonstrate ability to grow to increase business valuation.
- Desire to fully utilize production capacity.
- Opportunity to add expertise or needed staff competencies.

Likewise, not every business is ready or able to grow:

- Growth requires upfront capital that may not be accessible.

[1] It can be argued that the organization's ability to execute is also a key element. However an analysis of the ability of the organization to execute cannot begin until after the operational landscape (as dictated by a specific growth scenario) has been defined. This is an important topic and will be reserved for a subsequent discussion.

- Growth can hide performance issues. Effective systems and controls must be in place to proactively identify problems.
- Overly aggressive growth can stretch a company's infrastructure beyond the breaking point.
- There is risk that pricing or margins may suffer as the organization pushes to secure new business.
- Growth may dictate the need to expand beyond your current markets or develop new offerings.
- Growth can increase organizational complexity. Additions of new staff or leadership to support growth can dilute the culture of your company. The ability to effectively communicate can be reduced as the organization expands.

The sense of urgency perceived by individuals on the team has significant influence over decision making. Having a means to make sure everyone is on the same page is critical. This can be as simple as asking people to rate their perception of the business' urgency for growth from 1 to 10 against some basic ranges such as these:

a. <u>High Urgency</u> - The situation dictates the business must grow. Start-ups, venture funded businesses, businesses in need of cash flows to support operations are prime examples. Businesses with High Urgency would rate their situation between 7 and 10.
b. <u>Medium Urgency</u> - The business has the luxury of choosing to grow or not grow. Cash flows and available capital will support operations. Businesses with Medium Urgency would rate their situation between 4 and 6.
c. <u>Low Urgency</u> - The business would be better served by not growing. They may have just concluded a significant period of growth and need opportunity to catch their breath. They lack capital, resources, or capacity to push for growth. Businesses with Low Urgency would rate their situation between 1 and 3.

Opportunity for Growth

The next step involves defining the opportunity for growth.[2] In a nutshell, this is the determination of whether your current market has the ability to sustain you, can allow you room to grow, or dictates your need to branch out. This assessment begins with gauging need for your products in targeted markets.

- Who are the customers (or potential customers) targeted by your firm?
- What is the current level of need, and is the trend growing, static, or declining?
- As you look to the future, will government or other external factors impact demand for what you offer?
- Are there actions (education, advertising, etc.) you or others could take to increase the customer understanding or appreciation of their need?

Additionally, you'll need to evaluate the level of competition you will face as you pursue customers and sales. Things to consider:

- What options do customers have?
- How available are these sources and is availability likely to stay the same, grow, or decline?
- What is the likelihood that customers will come to you versus others to address their needs?
- How formidable is the competition? Is the threat they pose growing or declining?
- How can you achieve greater influence over customer decisions?
- Will competition affect pricing and margins? Is pricing pressure expected to increase or decrease?
- What market share can you secure given the competition?

[2] At this stage the analysis should be confined to existing markets and capabilities. Consideration of expansion to new markets and/or product offerings should be a secondary decision determined after consideration of the growth scenario factors as presently situated.

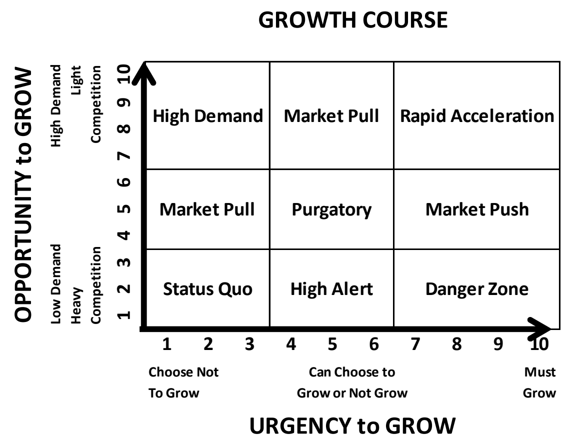
Answering these questions requires a very deep instinctual understanding of factors external to your business. The decisions you make dictate how effectively you and your team navigate a course for growth. Rating again from 1 to 10, you will likely find yourself in these categories:

a. Large Opportunity - You anticipate the need for your products as large and growing and competition is not yet prepared to effectively respond. These businesses rate opportunity to grow between 7 and 10.
b. Medium Opportunity - The level of need in the market is static with potential for modest growth. The level of competition is not expected to increase or decrease to any significant extent. These businesses rate opportunity to grow between 4 and 6.
c. Small Opportunity - The need for your solution is finite or declining. Competition is intense or with potential to increase. These businesses rate opportunity to grow between 1 and 3.

V. DEFINING YOUR COURSE FOR GROWTH

When combined, urgency and opportunity will define a unique business growth scenario. Ranked in order of the challenges they present:

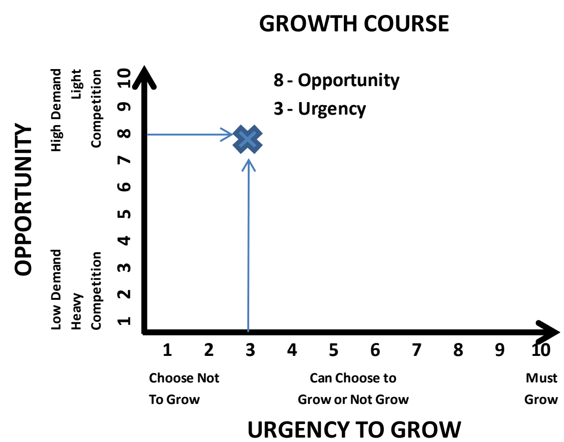
1. **Status Quo** (Low Urgency/Small Opportunity)
2. **Market Pull** (Low Urgency/Medium Opportunity) or (Medium Urgency/Large Opportunity)
3. **Market Push** (High Urgency/Medium Opportunity)
4. **High Demand** (Low Urgency/Large Opportunity)
5. **High Alert** (Medium Urgency/Small Opportunity)
6. **Rapid Acceleration** (High Urgency/Large Opportunity)
7. **Danger Zone** (High Urgency/Small Opportunity)
8. **Purgatory** (Medium Urgency/Medium Opportunity)



Armed with a rating of urgency and opportunity a decision matrix template can be used to establish your unique course for growth.

For illustrative purposes, let's assume you have rated your business as having low urgency for growth (3) with a large opportunity for growth (8) in its existing markets.

In this case the implications are represented in the matrix to the right (indicated by the X), placing the business on a High Demand growth course.



VI. DEFINING PRIORITIES CONSISTENT WITH THE GROWTH SCENARIO

The course for growth establishes business operating parameters. Understanding and buy-in of everyone on the team is needed to ensure actions align with realities.

While specific implications are unique to each business, priorities as to when, how much, and how fast to grow typically reflect the following:

1. **Status Quo (Low Urgency / Small Opportunity)**
   - When - No push for growth is indicated. Time is ripe to sharpen focus inward toward increased quality, efficiencies, or level of service.
   - How Much - No growth is indicated. Maintaining and preserving market position, identifying opportunities to secure additional margins, increasing quality, and improving customer service take precedence.
   - How Fast - Speed is not an issue. New opportunities should be carefully evaluated to ensure margins are supported and that new relationships truly align with your long-term direction.

2. **Market Pull (Low Urgency / Medium Opportunity) or (Medium Urgency / Large Opportunity)**
   - When - Timing is of your choosing.
   - How Much - Opportunity to grow exceeds urgency to do so. Steps should be taken to ensure new business is a long-term fit, brings strategic benefit, and/or supports pricing at solid margins.
   - How Fast - Slow and controlled growth.

3. **Market Push (High Urgency / Medium Opportunity)**
   - When - The time is now.
   - How Much - What the market will provide and the business can support.
   - How Fast - The need to create or uncover opportunities is pressing. Speed is dictated by how effectively the business can push into the marketplace.

4. **High Demand (Low Urgency / Large Opportunity)**
   - When - Timing is of your choosing.
   - How Much - Highly disciplined growth. There is need to resist temptation to respond to market pressures. Growth should only be considered if the business can deliver, new customers fit strategic needs, and/or pricing is secured at solid margins.
   - How Fast - Slow and controlled growth.

5. **High Alert (Medium Urgency / Small Opportunity)**
   - When - Timing is of your choosing.
   - How Much - The need for growth is vague. Since a mandate to grow is lacking there is risk of complacency or aversion to risk. A specific growth target and commitment to achieving it is needed.
   - How Fast - There is danger that the business can lose focus or pull back if an impetus to grow is lacking. The business must press forward in search of opportunities.

6. **Rapid Acceleration (High Urgency / Large Opportunity)**
   - When - The time is now.
   - How Much - As much as you can reasonably manage and remain consistent with your mission. Volume should be dictated by access to required capital, quality of opportunities available, and ability to scale your organization to effectively respond.
   - How Fast - Speed of growth must be at a manageable pace. Opportunities must be carefully considered to ensure growth is of high quality and adequately priced.

7. **Danger Zone (High Urgency / Small Opportunity)**
   - When - The time is now.
   - How Much - Growth is required but difficult to secure. There is need to invest resources and energy to secure opportunities and battle competitors. The situation dictates openness to change (expand geographic reach, offerings, or pricing). All options must be considered.
   - How Fast - Speed is essential.

8. **Purgatory (Medium Urgency / Medium Opportunity)**
    - When - Timing is of your choosing.
    - How Much - Vague urgency for growth combined with modest demand is a dangerous combination. The organization may become content with average quality opportunities priced at margins that are at best adequate. There is need to sharpen organizational focus by setting clear targets and accountabilities.
    - How Fast - Steady forward pressure in a targeted direction. Leadership must show commitment to grow and a willingness to take calculated risk.

VII. Conclusion

Setting a business course for growth is challenging under the best of circumstances and considerably more so in today's climate. Utilizing an objective framework can ensure you set the right priorities for when, how much, and how fast to grow. Having a tool for getting everyone on board and pulling in the same direction sets the table for business success.