MainStream Management
Creating Value, Driving Results

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MainStream Perspective

Four Fundamentals of Revenue Growth

With recovery from the recession still moving at a snail's pace, how worried should you be as a C-level leader about your company's future revenue growth? In a word: very.

"But wait," you might say. "Corporate profits are at their highest levels in 60 years, with profitability as a percentage of GDP at an all-time high of 10.3 percent. Companies are holding trillions in cash reserves, and are looking stronger than ever after squeezing every dollar of cost they could find out of their operations over the past four years."

That's correct, but it fails to tell the whole story. Today's economy is burdened by three decades of debt accumulation. Lower income growth has reduced consumer purchasing power and slowed their spending. And, taken together with uncertain government policies, these macro factors are exerting downward pressure on asset return amidst increasing labor costs and slowing productivity. As a result, corporations will find it increasingly difficult to achieve the financial returns expected by investors.

The result is an economy that lacks momentum, in which companies must determine how to generate revenue growth in an environment where nothing is moving. To capture growth in such a market, you must transform your company into a high-performance economic machine that's adapted to these sluggish economic times. Revenue growth, more than any other metric, is the fundamental driver for long term corporate performance. There are four key factors that will keep your business moving toward growth: corporate focus, customer alignment, pricing for value, and speed of execution.

Corporate Focus

The further a business departs from its core base of customers and products, the harder it is to achieve profitable growth. The ability to sharply focus on the core competencies of a business creates a firm connection between the organization and the customers that it serves. The net result: a business centered on what it does best and one that has the freedom to excel in doing what matters most.

When Steve Jobs returned for a second stint as Apple's CEO in 1997, he found the company had been churning out multiple products across a myriad of segments. Within a few months, Jobs had slashed 70 percent of Apple's product lines and eliminated positions in tangential businesses,

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— Laurie Brunner, MainStream Management

such as printers and servers. Instead of more products for growth, Apple chose fewer, focusing on two markets — business and consumer — creating just two Macintosh products for each market. Apple was then able to fully exploit the growth opportunities within its core business, putting the full force of its product development teams into making its great products even greater. Apple's customer-aligned focus enabled it to redefine its market and kick revenue growth into high gear.

Killing misaligned projects and products is difficult, yet is as important as selecting what to do. The Apple example shows the power that flows from deciding what not to do in a business. Pruning the extraneous requires a disciplined assessment of a company's core competencies, and focuses squarely on those attributes that are best matched to customer preferences. Bluntly assessing competitive market position and spinning off any peripherals that are not primary to customer needs eliminates distractions. The business can then intensify its efforts on the lines where it can best excel — and derive the greatest return on product and marketing investments.

Sustainable, profitable growth is intentional. It is an easy to understand strategy with clear focus that creates greater competitive advantage, market differentiation and operating efficiencies. Conditions might put you sideways at times, but guided by strategic purpose, you can adapt your operation for each twisting curve of the race.

Customer Alignment

Aligning products with markets in a systematic way enables businesses to reach more customers and to choose the right mix of channels to profitably grow those customer relationships. Critical to this process is a comprehensive evaluation of the buying behavior and the demographics within the customer portfolio. High-performing companies that have realized sustained growth are adept at understanding inflections in customer demand. They recognize the importance of systematically conducting market scans to identify emerging buying preferences and potential new product applications. They understand not only what and how their customers buy, but more importantly, why. These high-growth companies are then able to more rapidly capture previously undefined product needs to hold and expand share. This process in itself minimizes market uncertainties by broadening the footprint of a product's reach or extending its life by capturing new use.

High-performing organizations also mitigate the risk of growth setbacks by organizing the structure and process of the business around the end customer. Product strategies, pricing approaches, market plans, and the talents of the organization must all be aligned in lock-step with your customer.

By focusing on the right customer segments, the right product or service mix, and the right tactical priorities, you can stay on track more effectively. That means new products or services must be conceived, and market-leading innovations must occur, well in advance of stated customer demand — and changes in customer needs must be swiftly acted upon.

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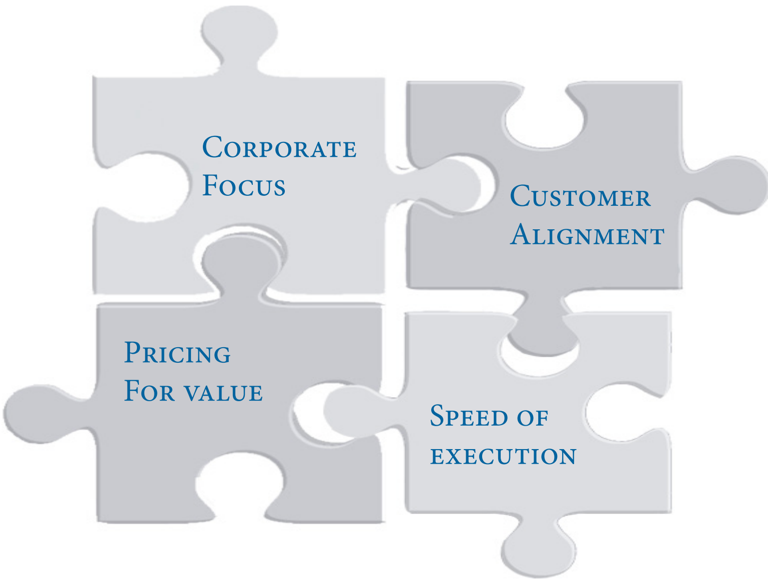
All aspects of the organization — from product development to manufacturing to sales — must center on the customer. For example, manufacturing operations can create competitive advantage when aligned directly to customer needs and the markets they serve. By collaborating with customers and suppliers, the supply chain and manufacturing output can be linked directly to the customer’s operational business model. Making the customer “due north” on the compass creates greater value, customer loyalty, and a hard-to-dislodge competitive advantage.

Take Tim Cook, who leveraged Apple’s supply chain to create raving fans for the Macintosh. Whittling down Apple’s suppliers from 100 to 24, Cook was able to negotiate more favorable terms, including relocating those suppliers nearer to Apple plants. As a result, inventory levels were reduced from two months to six days. Manufacturing cycle times were cut in half. Apple not only reduced production and inventory costs, but created a loyal following for the latest in PC technology — readily available at an accessible price.

A similar assessment must be completed of the sales organization to ensure that skill sets are in alignment and can adapt with changing customer requirements. No matter how great a product may be, if it is misaligned to the market and the skill sets of the sales force to sell it, its full potential will never be achieved. Organizing the business around the customer is a foundational step toward achieving sustained growth by ensuring that customers are served by the right people selling the right products.

In a flat economy, of course, sales are harder to come by. Profitable growth cannot be achieved by simply adding more sales talent or by slashing costs. Sales force effectiveness, therefore, is all the more important.

The challenge is recruiting, coaching and maintaining a sales force that is fully capable of supporting and fulfilling the needs of the business. Toward that end, sales force competencies must be



aligned to corporate objectives, key performance indicators, and customer buying preferences.

Pricing for Value

When a one cent swing in pricing can change company profits by hundreds of thousands and even millions of dollars, the results can be incredibly rewarding or utterly devastating. Yet, research has shown that the majority of CEOs rarely engage in detailed pricing discussions and most organizations lack an understanding of the value that the customer ascribes to the product — and ultimately, what the customer is willing to pay. This leaves a critical component of revenue generation to a process of "guess-timation" with little involvement from executive management.

Setting a price that creates advantage for the business and value for the customer has three main components: identifying customers' perception of product value and their buying preferences by market segment; assessing all cost components, including identifying hidden costs and forecasting the risk of supplier price changes; and, establishing and communicating target pricing that creates organizational discipline and accountabilities to maintain profit thresholds.

In a constrained, slow-growth economy, businesses have a tendency to use promotions and incentives as a means to increase revenue and volume. The net effect: the customer becomes conditioned to not necessarily buy more, but to purchase only when discounts are offered.

Instead, the bold strategy is to recognize that buyers can and will pay a premium above and beyond the value of the product. If the organization can position the product in such a way that the offer presents an unforeseen opportunity for the buyer, then price increases or premium positions can be successfully implemented with outstanding gains to both top and bottom-line results.

The cost of not doing this is striking. At AT&T during the early 1990s, for example, some of the brightest leaders in technology were charting the course for market dominance. At the same time, long distance service was AT&T's cash cow with corporate business rates above 10 cents per minute. While the service quality was second to none, the competition from MCI, Sprint and upstart, Cable & Wireless, was intense and pressuring calling rates to 8 cents or less.

Instead of communicating the value of AT&T's technology future, the sales organization was selling in the silo of long distance services. The strategic vision that the business had designed (Internet connectivity, virtual data solutions, wireless and a myriad of other advances) was not understood nor communicated to the teams that mattered most — those interacting directly with customers. Instead, front line sales teams were hunkered down in the trenches responding to long distance pricing versus positioning the broader abilities of the businesses and the meaningful advantages that new technology solutions could bring to the customer.

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Speed of Execution

Business conditions continue to change at an exponential rate. Technology, product life cycles, and consumer preferences are all moving at a pace that requires speed and agility of execution. Moving too slow can mean losing market position, especially in today's macro economy.

The successful program of change has two goals: to motivate the organization to rapidly act and to create a process that links organizational goals to the work that must be implemented. Yet while many businesses develop strategic plans for market share growth, the reality is that few achieve it. Why? Because there is a breakdown in the process between setting a vision and implementing the actions to achieve it. Success in not only executing the plan, but accelerating its implementation, requires a shift in thinking — one which recognizes that any growth strategy must be treated as a change initiative.

AT&T's failure to successfully communicate and implement its organizational vision led to a loss of market share. The ultimate result: the best and the brightest departed for more innovative organizations. And, the company's once market dominance gave way to corporate demise and the acquisition of AT&T by one of its Ma Bell spin-offs.

Managing change can be tricky in any economic environment. It is here that leadership can have its greatest impact. The changes that accompany any strategy require making a firm connection from the board to management to the implementation team. And, within each group, it is essential to identify members who can be tasked with championing the change agenda and creating accountabilities for its success.

Dr. John P. Kotter, the widely recognized expert and author on change, terms this as the creation of a “guiding coalition.” And, it is this group of champions that possesses the appropriate credibility and set of authorities to speed decision making and culturally drive the initiative forward. Many leaders have found that by building a team of interested and empowered individuals (at all levels in the organization) they’ve been rewarded with diverse points of view, new ideas and broader ranges of expertise — all necessary to anchor new approaches in the organization.

Defining the high level business strategy clearly and compellingly, and then connecting it to the associated supporting projects deep in the organization, sets the stage for communication, buy-in and ownership. Organizational speed requires a sound plan accompanied by the recognition that success will only emerge from an engaged organization that is fully aligned and committed to its priorities.

In conclusion, future revenue growth is not an abstract concept that can be left to work itself out down the road. Company leaders need to take bold steps now to quickly put that growth in motion. Focus, customer alignment, pricing management, and speed of execution are four critical components for succeeding in today’s sluggish macro economy.

About MainStream Management

MainStream Management provides business leaders the expert guidance needed in both finance and operations to confidently invest for growth. Since 1999, MainStream’s unique perspectives have helped companies answer the questions of “what’s next” and “what should we do about it.” Using our team of industry leaders, we’ve created bold strategies that have enabled our clients to achieve improved profits and sustained performance in uncertain times.

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