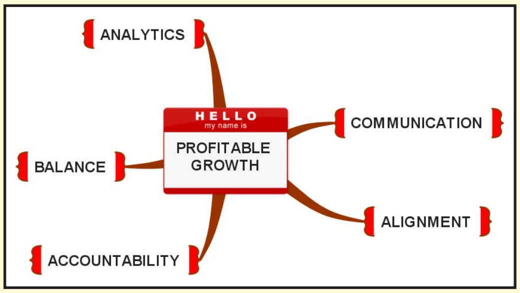
The Tyranny of Growth

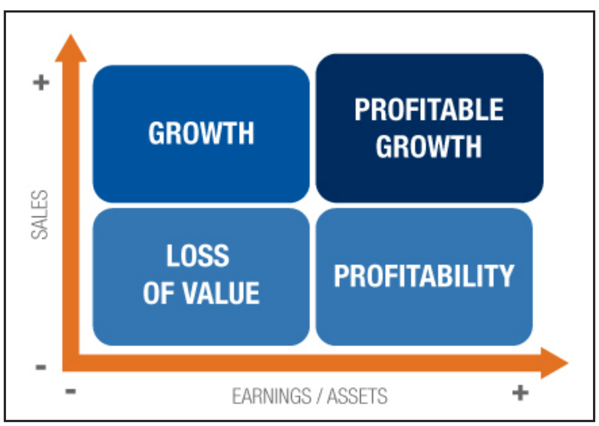


Growth in today's environment is on every top executive's radar. However, in this article, the author explains how growth for growth's sake – the tyranny of growth – is detrimental to a company's long term pricing strategy, customer excellence, shareholder value and value proposition. The article also examines five dimensions that are important to profitable growth. Stephan Liozu, Ph.D., CPP, (www.stephanliozu.com) is the Founder of Value Innoruption Advisors and specializes in disruptive approaches in innovation and value management. He earned a PhD in Management from Case Western Reserve University and can be reached at sliozu@case.edu.

"We want to be a $10 billion company by 2020" or "our divisional sales will double in 5 years." Lots of top executives define irrational strategic targets during their strategic planning process. The good news is that it gives a direction about where the company is heading and how big it needs to be in the future. The bad news is that size-related targets become the real focus of attention for the entire commercial organization at the expense of pricing and profit.

Corporate growth targets coming from the top can become engrained in the cultural fabrics of an organization and can possibly derail any other corporate ambition related to value, customer excellence, or shareholder value. Do not get me wrong! Growth in today's environment is on every top executive's radar. As demand flattened in mature markets, the attention has turned to emerging markets, micro segmentation, and mergers and acquisitions (M&A). But there is a huge difference between growth for size purposes and profitable growth to increase financial value. Growth for the sake of adding top revenues does not mean anything if it destroys value, dilutes return on sales, and drains the resources to work on more productive priorities. Growth for growth becomes an addiction. This is what I call the tyranny of growth!

Figure 1



Misconceptions and misunderstandings about the concept of growth are both rooted in the leadership culture that is in love with growth.

Here are some examples demonstrating the dangers of the tyranny of growth:

1. Growth at all cost to raise market cap: For some startup companies, growing fast is a matter of reaching a critical size to leverage the assets and infrastructure investments. For others (Twitter, Angie's List, Snapchat), the race is not to make money but to put themselves on the selling block. In that case, the irrational race for users and transactions is priority number one. Profits come later. You might say it makes senses for startups to reach critical size and scope so that they can reach a profit. Many do not get there though. They stay unprofitable for years while continuing to secure funding. Who is to blame? The investors who race for a quick buck and expect humongous returns from their investments during the exit process. I take the position that start-ups should become profitable operationally very quickly based on the strength of their business models and the level of differentiation value they deliver to the market place.

2. Growth to satisfy a CEO's personal agenda: For some CEOs, entering in the Fortune 500 ranking is a goal that only satisfies their ego. It is also an achievement on their resume to land the next big assignment. In this situation, growth priorities coming from the very top send the strong signal to commercial troops that sales revenue is critical and profit is secondary. You can train the sales force on pricing and value all you want; the sales target is the real focus especially if it is published in corporate strategy documents.

3. Growth to satisfy investors' expectations: The concept of perpetual growth is irrational. Growth year-after-year cannot be sustained without making mistakes. My business experience has been to pace growth and to make sure new business opportunities are integrated and fully captured through pricing activities. Pacing growth and focusing on profitable pockets of opportunities might mean periods of flat growth. Of course, financial analysts might not like it and they might punish your stock price.

4. Growth to become a truly global company: "We have to be in China!" How many times have you heard this in a management meeting? The race to become a prestigious international or global company can lead to disastrous profit results. How many companies have found the secret sauce to be sustainably profitable in emerging markets? How do you handle the dilution of your profit margins?

5. Growth to reach a target that sounds nice: Finally, a round target becomes part of the overall story telling of a strategic agenda. A round number of a $1 billion dollar sounds jazzy. Doubling sales in 5 years looks attractive. Becoming number 1 in an industry is very "Jack Welsh"- like!

Of course, there are excellent reasons justifying the chase for growth. Some of them include procurement strength, organizational synergies, portfolio management, need for innovation, strategic acquisition, protection against hostile take-over, etc. I am not saying that growth is bad. I am saying that the impact of growth at all cost, growth that destroys value, and growth that burns cash can be devastating and needs to be taken seriously.

So how to you manage a growth priority and also focus on profitability and pricing power? I recommend five dimensions that are important to profitable growth.

1. Communication:
Focus your communication, goals, and priorities on profitable growth: pay attention to signals and messages from the top. Set the right priorities and take the pulse of the organization to make sure everyone understands that the focus is on growth *and* profit, not just growth. Communication to the sales force needs to be robust, clear and repetitive.

2. Alignment:
Create strong alignment on the definition of what profitable growth means for various teams: it started in the C-suite! It is essential to define commercial rules of engagement, growth strategies and tactics that are aligned across the board, and measurement systems that report trends, deviations, and outcomes (including compensation systems). The role of the pricing council can be extended to include growth discussions, opportunity ratings, and strategic pricing decisions related to market penetration and market share acquisition. The pricing council will offer a forum for candid conversations on topics such as risk of price wars, pricing guardrails, pricing strategies, protection of core business pricing, channel pricing tactics, international penetration strategies, etc.

3. Accountability:
Share accountability and responsibility for growth initiatives to sales, marketing, finance, and pricing. Make sure all teams work collectively to design and execute profitable growth initiatives. Growth is not just the responsibility of the sales team. Smart and profitable growth requires proper segmentation, progressive lead generation efforts, marketing support and pricing guidelines. If growth is a strong priority for your organization, create a growth task force or a growth platform to encourage multi-functional work (communication, design, execution, tracking, and learning).

4. Balance:
Adopt a balance of the 3 C's of pricing to make sound growth decisions. Costs are essential in order to successfully penetrate new markets or capture significant opportunities, but new markets, new segments, and new territories might have very different competitive dynamics. Finally, customer perceived values and levels of willingness-to-pay will also differ by customer segments, so the decision to pursue these new pockets of growth will have to include thorough analysis related to cost, competition, and customer value.

5. Analytics:
Focus your analytics on the basics of profitability analysis for significant growth opportunities: cost-to-serve analysis, waterfall analysis, contribution margin analysis, capacity utilization analysis, etc. Measure, measure, measure! I recommend you set up a separate dashboard shared with your finance peers to track growth initiatives that get reported to the proper authorities.

The role of the pricing function in managing growth initiatives is essential. They need to work closely with the finance team to guide growth in the right direction. The focus needs to be on pricing discipline and profitable growth. They are not mutually exclusive. Pricing experts in firms need to ask the tough questions: is our growth destroying value? Are we truly measuring the profitability impact of our growth projects? Are we staying true to our pricing strategy while growing? Are we damaging our brand positioning? These are the questions to ask in management discussions and in the interaction with the sales force. Growth is a priority. Profitable growth is a must-have.

Be bold! Join the pricing revolution!

Figure 2