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CFO insights:
What is your unique growth code?

As the economy revives, CFOs are increasingly turning to a growth agenda. There have been any number of attempts to identify the secrets of successful growth, yet the sought-after magic bullet remains elusive. Perhaps not surprisingly, Deloitte believes that the data shows that there is no single path or magic formula to growth — and any attempts to generalize about growth strategies are bound to be flawed. While revenue gains have been tightly coupled with overall economic growth, a closer look at the historical data shows significant variations between different business sectors and businesses.[1] The growth rate (median) for larger companies is lower and less volatile. Individual industries exhibit quite distinctive growth patterns; even within particular verticals, there are significant variations among particular businesses; and the roster of growth "winners" has also historically changed with each cycle of downturn and upturn — something that is expected to occur once again as the recovery of the global economy gains steam. To seize opportunities as the economy continues to revive, CFOs will have to help frame the unique growth code for their company

To achieve true growth, think beyond revenues

Naturally, businesses want to be on the growth winner's roster as the world economy rights itself. But growth is not an end in itself. Profitability and returns on capital as represented by total shareholder return (TSR) are also critical. In fact, interdependencies among these three measures of performance seem to make chasing higher revenues alone at the expense of profitability or TSR a barrier to achieving success on any of these three fronts.

Recently we analyzed data for companies that were publicly traded on U.S. exchanges between 1966 and 2008. We also conducted a Delphi survey on the behaviors of growth champions with more than $1 billion in annual sales, and found that it was indeed more common for high-performing firms to perform well on two or three of the growth factors: revenue, profitability, and returns on capital.[2] We also discovered that the highest performing firms of all — businesses that achieved at least a twice compound annual growth rate (CAGR) over their lifetime — ranked highly in all three measures of growth.

An analysis of the growth strategies these firms pursued suggested four broad categories:

- **Core growth.** Increasing market share within existing or related segments. This contributes approximately 45 percent on average to a company's growth.

- **Customer or markets growth.** Entering new markets or customer segments that are unrelated to existing ones. This contributes 23 percent to growth.

- **Product and service growth.** Growing an existing customer base and identifying its needs to develop new products and services, especially in new sectors. This contributes 26 percent to growth.

- **Value chain expansion and/or new business.** Vertically integrating the value chain or expanding into a brand new business opportunity that is only loosely related to the core. This represents about 8 percent of growth.

We also found that most companies that achieve not only revenue growth, but also high profitability and TSR leverage both organic and inorganic (M&A) means to implement these strategies, with a strong preference for inorganic growth. Whatever combinations of strategy are executed for growth, we also found companies need to frame and adhere to their own growth code.[3]

Footnotes

[1] Based on Deloitte research using CompustatDatabase; Bureau of Economic Analysis; Bureau of Labor Statistics.

[2] Source: Based on a Deloitte proprietary database and survey.

[3] Source: Based on data from The Persistence Project, Deloitte, www.deloitte.com/us/persistence.

Highest performing companies adhere to a growth code

One of the most compelling results of our research was that the top-performing businesses had common foundational values and business governance processes in place. We organized these values and processes into three categories. Taken altogether, these create what we call a "growth code."

Organizational clarity. To achieve this, you need leadership vision, a strategy that derives from that vision, and the ability to communicate both the vision and the strategy effectively and across business functions. You should cultivate a growth culture, which means instilling in employees an aspiration for growth that includes rapid feedback cycles to reinforce those aspirations. Of the three aspects of a growth code, organizational clarity is by far the most important.

Financial and Resource Alignment. Among the companies we studied, those that did well clearly aligned their resources to the strategic agenda of their businesses by managing resources effectively. They also clearly understood their range-of-business portfolio options, and the risks and rewards related to them. As a consequence, by accurately assessing their capacity and capability for growth — including resources such as people, time, and money — they were able to manage growth wisely.

Customer Insights and Operational Excellence. Successful companies acquire customer insights by gathering and analyzing customer data from different sources to derive insights on product and service preferences, buying trends, and upsell opportunities. They attempt to simplify their businesses by minimizing complexity in processes and procedures as well as product and service offerings. Lastly, they effectively manage the risks and rewards of optimizing processes through such means as outsourcing non-core functions.

Additionally, high-growth companies leverage collaboration tools to unite cross-functional teams across the extended enterprise — including both internal and external stakeholders — and to sharpen their customer focus. When a growth strategy involves a merger or acquisition, growth companies define clear targets for aligning the acquisition with corporate goals, and create a clear playbook to implement it.

Growth companies cultivate innate risk intelligence

One more critical driver for achieving growth is risk management. High-growth companies don't just address risk management when creating a growth strategy: they possess an innate risk intelligence capability that permeates that strategy, and takes into account that risk always accompanies opportunities. They constructively challenge their assumptions, and continuously assess the risks associated with those assumptions. In short, they take a dynamic approach to risk management that takes into account that risks change over time. Growth companies also focus on just a few critical risks without "boiling the ocean" to address the many trivial ones that will always exist.

Avoid overgeneralized advice about growth strategies — seek your own path

As CFOs turn to a growth agenda, it is important to understand that "THE" growth code doesn't exist. Embarking on a quest for a single set of rules that guide growth would be fruitless. Instead, we believe companies can apply various levers to achieve growth — but they need to keep in mind that those levers and the ways in which they are applied are highly idiosyncratic and particular to each company. Moreover, because conditions change, companies must constantly evaluate their use of such levers.

Still there are certain truths we can believe in. First, businesses that survive severe downturns never sit on their laurels: they are constantly refining their product and service portfolios. Second, companies that use a mixture of growth strategies — and pursue multiple ones simultaneously — are more likely to succeed than those that stick to a single strategy. Third, M&A activities cut across all strategies and are a critical path to growth. And, finally, to realize sustained growth, businesses must map their internal capabilities to opportunities.

Most important, successful growth encompasses profitability and TSR as well as increased revenues — and achieving all three goals is highly dependent upon a companies' ability to achieve organizational clarity, financial and resource alignment, customer insight and operational excellence, and risk management. The rewards of creating a custom growth code that builds on these four principles can be significant. It can help to minimize low growth periods during economic doldrums and maximize growth during boom times.

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Deloitte's CFO Program harnesses the breadth of our capabilities to deliver forward-thinking perspectives and fresh insights to help CFOs manage the complexities of their role, drive more value in their organization, and adapt to the changing strategic shifts in the market.

Contacts

For more information, please contact:

Danny Lau
National Leader - China CFO Program
Deloitte Touche Tohmatsu
Tel: +852 2852 1015
Email: danlau@deloitte.com.hk

Sammie Leung
Senior Executive - China CFO Program
Deloitte Touche Tohmatsu
Tel: +852 2852 1620
Email: saleung@deloitte.com.hk

For further information, visit our website at www.deloitte.com/cn

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