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The performance imperative
Reaching beyond cost cuts and product delivery improvements

Like most businesses today, mid-market companies are striving to pursue growth opportunities and deliver attractive investor returns amid economic uncertainty, increasing regulatory demands, and growing competition. But mid-market companies also face some challenges that distinguish them from their larger counterparts.

With objectives to expand the business, improve efficiency, raise capital, or attract and keep talent, mid-market companies will benefit from recognizing the particular hurdles they may encounter. Sometimes, though, their approach to meeting these demands can be vastly improved. They can avoid misfires by better understanding the consequences of decisions, and they can adopt some key principles to help build momentum behind projects, accelerate completion, and boost overall organizational performance.

Mid-market misfire #1: Overloading on growth initiatives

In late 2012, Deloitte surveyed approximately 650 mid-market executives to capture their views on the economic environment, their expectations, and their plans for their own business. Three of the top four priorities these business leaders expressed were to grow organically, introduce new products and services, and expand into new markets.

Faced with the urgent need to capture market share and roll out new offerings in today's slow-growth environment, mid-market companies run the risk of overloading the organization with initiatives. Companies can put too many projects into their pipelines. They may spread sales and marketing resources across too many market segments. They might even target the wrong markets. An overflowing pipeline of product development initiatives can limit the advantages of having common components or capabilities, leading to excessive product complexity and service expense.

The loss of focus resulting from this project overload can affect quality and market share. Cycle times extend. Products or services go into development and never emerge. Or, if they're rushed to market, they can lack robustness and create quality and service problems.

Mid-market companies servicing large customers can face additional problems. Customers with aggressive purchasing organizations may enforce contractual chargebacks. A mid-market company that competes on price and encounters delivery problems could see its margins evaporate.

The long-term impact from any of these growth-related hazards can be reputation damage and permanent loss of customers.

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Mid-market misfire #2: Reducing costs when constrained by scale and buying power

Cost reduction has grown more difficult as slow-growth economic conditions continue. Trimming expenses can be especially hard for mid-market companies, which may lack the scale and buying power of their larger competitors. Believing that other options for internal cost savings have been exhausted, a mid-market company may decide to pursue across-the-board cuts.

Such a blanket approach can have severe negative effects. Employees may feel company leaders have avoided making tough decisions. Leadership credibility diminishes, and communication degrades within the management team, affecting culture and morale throughout the organization.

Companies may try to reduce procurement costs by agreeing to larger minimum purchases in exchange for lower prices. This requires higher levels of working capital investment, potentially constraining future liquidity. Companies may also overlook low-hanging fruit, opportunities for cost reduction and cash management in areas such as insurance and working capital management.

Mid-market misfire #3: Misallocating capital for growth

Capital availability remains a challenge for many mid-market companies. Recent experience has shown current credit costs and continuing hesitancy among lenders are driving some companies to use working capital credit lines both for long-term investments and to fund operating losses.

Alternatively, a company may decide to sell strategic assets or postpone capital investment required for growth initiatives. Either approach can reduce long-term growth potential and create financial pressure across the entire organization. Companies may enter a spiral of dwindling liquidity, below-book asset sales, and reduced earnings, while their lenders' concerns grow over the shrinking asset base.

Mid-market misfire #4: Imbalance in the talent pool

Another challenge facing mid-market companies is a lack of personnel with specific skills needed — potentially a major impediment to executing priority projects and accomplishing organizational goals. A common response to such a talent gap is to hire new people to fill key positions instead of relying on internal development and succession planning. However going outside may create a "one-plus-one-equals-one" situation as scarce resources go to helping new people get up the organizational learning curve.

Meanwhile, existing employees may feel they aren't valued and decisions to pass them over were made in a vacuum. Morale and motivation can wane, with top talent seeing little advancement opportunity. This can lead to turnover and destructive organizational dynamics that affect team efficiency and effectiveness.

Mid-market companies can have an especially difficult time attracting and retaining the right people. High performers may feel working for a mid-market business will leave them "stuck in the middle"; they don't have the stability of a larger company, nor do they enjoy the excitement associated with startups. At the same time, as seen in the 2012 Deloitte survey, mid-market company leaders may have difficulty determining the true nature and scope of the talent imperative (see *Talent: how big a priority?*).

Talent: how big a priority?

The 2012 Deloitte mid-market survey suggests some dichotomous thinking among executives about the importance of workforce talent in achieving organizational goals. Asked their top business priorities in the months ahead, employee recruitment ranked near the bottom, far below growing the business, reducing costs, and increasing cash flow. However, when asked which internal investments offer the greatest potential for increasing business productivity, talent topped the list. Such seemingly contradictory signals may motivate business leaders to explore what the real return is on their talent and whether their priorities and decisions reflect talent development's importance to the organization.

Avoiding the misfire: principles for building momentum

Paying attention to three priorities can help mid-market companies marshal their people and resources around growth and cost-reduction initiatives and accelerate project completion:

Linking business needs to projects

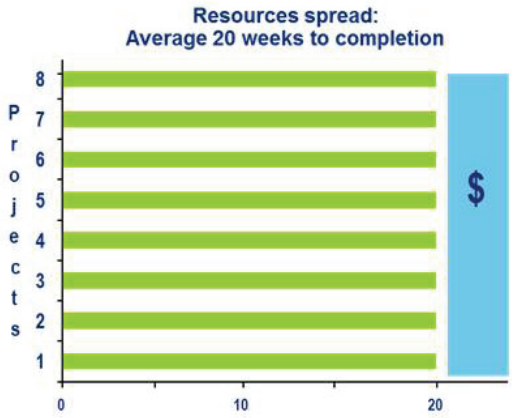
Creating a "line of sight" between business strategy, financial goals and potential projects can help company executives identify initiatives with the greatest potential to further strategic objectives. Zeroing in on core processes can prove valuable as these are major cost drivers and where the actual work gets done. Properly defining, scoping, and prioritizing projects can help identify resource constraints that need to be considered.

Leveraging your size

The sustained, rapid change in today's business environment can challenge the strategic planning process of any business. Mid-market companies can capitalize on their relatively smaller size and nimbleness to evaluate, develop, and implement projects ahead of larger competitors. While understanding a company's major business driver is critical to seizing these opportunities, the key to speed is focus and prioritization.

Focusing resources on priority projects

A mid-market company that tries to conduct too many projects simultaneously runs the risk of being spread too thin, with the result that multiple timelines get extended. Limited resources, especially talent, compel mid-market companies to focus intently on the projects that can deliver the most value, engage the workforce behind them, and put other projects on hold. This is a simple concept, but challenging in practice as, typically, leadership wants everything done now. Put your organization on a "project diet" — starting only those projects that are important and can be done in a timely basis with resources available. This approach can help build organizational momentum behind critical initiatives and accelerate their benefits.



Performance improvement: some key considerations

Paying attention to these factors can help mid-market businesses gain greater value from improvement initiatives:

- Management involvement and alignment are critical.
- Alignment of projects with business strategy is necessary for them to receive the required attention.
- Resource allocation should take into account all initiatives within the business. There is a saying, "Anyone with more than three priorities, doesn't have any."
- If management is uncertain about the approach, initial projects will tend to be disconnected from strategy, be of low value, and lack support.
- The trick is not just identifying projects but identifying the ***best*** projects.
- Completing quick hits (low-effort, moderate-benefit projects) can generate momentum.
- Initial projects should be scoped to ensure a good chance at winning.
- Revisit the project selection process frequently to ensure proper priority, include newly identified projects and celebrate success and progress.
- Kill a project-in-process if it does not continue to meet prioritization and selection standards. It's OK to change your mind in the face of new information.

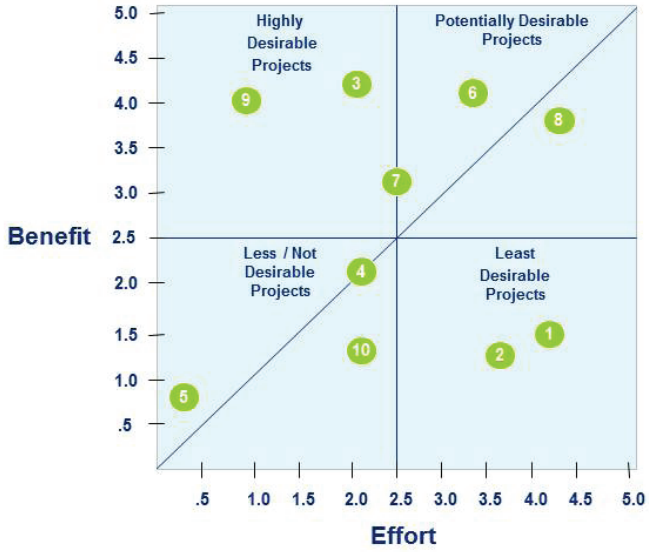
Identifying, evaluating, and prioritizing projects: a methodology

A disciplined approach to project selection can help take the emotion out of deciding which projects to pursue and how to allocate resources to them. The process begins by identifying projects that align with strategic business objectives. Company leaders can then conduct no-holds-barred brainstorming to focus in on the most promising of these opportunities.

The projects, which can come in all shapes and sizes, are then analyzed in terms of their cost-saving potential, balance sheet effect, brand impact, and other factors. This process produces a project definition that describes its scope and benefits, the resources it will require, the proposed timeline, and the means by which it will be measured. Project owners then present their findings to company leaders, who engage in a multiple-vote exercise to determine which ones will be pursued and which will be put on hold, based on their potential benefit and the effort required for implementation (Figure 1). This quantified approach helps take the defensiveness and emotion out of selecting projects.

Figure 1. Project evaluation

Management evaluates projects and determines "go" or "hold" status



Benefit / Effort decision making

Assume in the example plot to the left that we need to select the next 3 projects to assign to resources. Which 3 projects would you select?

One possible solution:

Project 9 would be the first choice based on extremely high impact potential versus relatively low effort required.

Project 3 would be the second choice. It has slightly higher impact potential and significantly less effort than projects 6 & 8.

Projects 6 and 7 are both desirable and while **Project 6** clearly has more impact potential, they both lie on the same slope line and thus are basically equal. We would consider "other" variables to make a final decision (*e.g.*, strategy, resources available or even leadership decision).

Other observations:

Projects 5 is an excellent **Quick Hit** candidate Which can create momentum for all projects.

Make the most of improvement efforts

The ability of mid-market companies to improve performance starts with the commitment and ***involvement*** of executive leadership. Their participation in the process is crucial to maintaining alignment between projects and company strategy. With this foundation, companies can pursue projects in a disciplined manner using the right tools for their business and culture. The payoff of these efforts can be significant performance improvements and a stronger marketplace position.

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Performance improvement: a manufacturing case study

A high-end appliance manufacturer with operations in a rural location had a broad product line, complex manufacturing processes, and long development cycle times. Resources and personnel, especially engineers, were stretched. Inventories were high, and service costs were increasing because of quality problems.

To address these issues, the company first focused on reducing finished goods and raw material inventories to improve liquidity. Next, the company pursued an array of potential cost-cutting projects in diverse areas including marketing, legal, and freight expenses. Initiatives included redesigning products for cost reductions, streamlining processes, and improving customer service. These initiatives produced a significant improvement in the company's earnings before interest, taxes, depreciation and amortization (EBITDA).