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A winning playbook for profitable growth

By Tim Breene and Michael R. Sutcliff

A common characteristic of high-performance businesses is the ability to consistently generate new sources of revenue growth while delivering profitability from their core business. Critical to creating this capability inside large organizations: a disciplined approach and sustained effort from the senior management team.

Corporations across industries perennially struggle to generate and maintain profitable growth rates that match the expectations of investors and other stakeholders. This challenge increases in complexity as organizations and markets mature over time. And because sustained, profitable growth is a key requisite for high performance, avoiding the traps of growth without profit or stalled revenue growth remains a top priority with senior executive teams as they manage through changing market conditions, customer expectations and competitive threats. Choosing between investing for growth and delivering profitability from the existing business has always been a source of tension for management teams. High-performance businesses

have met this challenge with a commitment to consistently deliver both expected financial results from the existing businesses and revenue growth through new business initiatives. General Electric Company, Procter & Gamble and UPS are just a few of the companies actively working to improve the processes and discipline needed to successfully deliver on this commitment.

Growth models

At GE, a recent review of the company's business units demonstrated that the groups that have been managed for both growth and profitability have done the best over the past decade. The company has developed a model for creating a disciplined process that can

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reliably draw new revenue streams from existing businesses.¹

P&G also has made considerable progress in reinvigorating growth across products and geographies by adopting a new “Connect + Develop” model. The model enables new business initiatives by helping the company learn from both proprietary and open networks of customers, suppliers, technology leaders and innovators. P&G is working with external organizations such as NineSigma and InnoCentive to create technology and scientific problem briefs that can be shared with its network of thousands of possible solution providers worldwide. The company is also working with YourEncore to connect with hundreds of top retired scientists and engineers from more than 150 companies with client businesses.

Since P&G adopted the model in 2000, the number of new products developed with external assistance has more than doubled. More important, the initiative has given P&G a richer understanding of how the company can solve tough customer problems that have not previously been addressed.

The experiences of these and other companies that are actively developing new sources of revenue—by pushing the boundaries with new services, new business models and new revenue models—suggest that there are five things to get right.

Setting the right level of ambition

Delivering on growth objectives is one of the most difficult assignments a management team can take on. Although it is important to squeeze continuous growth out of existing products and services, the common characteristic of top performers in this regard is an aspiration to have

a significant impact on the business. Working on ideas that generate only incremental growth within the core is not likely to lead to the kind of sustained level of energy and commitment required to achieve high performance.

The focus at GE on “Imagination Breakthroughs”—ideas that can generate \$100 million in revenues within three years—is a good example of developing new growth platforms. UPS provides another with the development of its Service Parts Logistics and Supply Chain Solutions businesses (see “Inside the values-driven culture at UPS,” *Outlook*, September 2006). Accenture itself is taking a similar approach, identifying a small number of potentially high-impact growth platforms to build new businesses around. Each new business platform may require a transfer of existing skills from the core business, the acquisition of specific capabilities from external sources and the development of multiple new businesses around a key theme or industry problem set.

Creating a team capable of delivering the desired result

Building a team capable of meeting substantial new revenue growth objectives requires a serious commitment of talent, a sustained focus from the management team and flexibility in providing the team with skills over time.

One of the most consistent lessons from research related to growth through new businesses is the importance of creating a full-time team led by a respected business leader capable of working across the entire management team to get things done. It is not possible to achieve the desired results without dynamic leadership, adequate funding and the particular

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¹ Jeffrey Immelt, “Growth as a process,” *Harvard Business Review*, June 2006.

Much easier said than done

Delivering revenue growth alone is not too difficult for most companies. A combination of acquisitions, product expansions, marketing programs to attract customers with loss leaders and other techniques can usually move the revenue needle over time.

Delivering *profitable* growth is an entirely different matter.

Accenture research reveals that companies have found it exceedingly difficult to sustain above-market profitable growth over the long term. For example, we recently conducted an analysis to examine the track record of all global publicly traded companies and determine how many had achieved at least 8 percent annual growth every year since 1995. This growth threshold represents roughly a 50 percent premium on average GDP growth rates during the period.

Of the 6,670 global public companies in the survey universe with more than \$500 million in revenue in 2004, only 225—or 3.3 percent—were profitable and exceeded 8 percent growth every year between 1995 and 2004.

The Corporate Strategy Board discovered similar performance over an even longer time period. The organization's landmark study of 172 industrial and comparably sized service companies that had been members of the Fortune 50 during the past 40 years found that only 9 percent were able to avoid "stalled growth" throughout the 1955–1995 period.² Of this group, 4 percent were able to reignite some degree of growth after stalling during this time,³ while the remaining 5 percent—an "all star" group—remarkably sustained above-average growth over the entire four decades. The far more common story lies with the balance—the 91 percent of Fortune 50-size companies that stalled during the past four decades and never recovered to above-market growth.

Not surprisingly, the equity markets have been particularly unforgiving when presented with stalled growth. More than two-thirds of these stalled companies lost more than 50 percent of their market cap relative to the stock price high achieved during their high-growth era.

² Stalled growth occurs when real revenue CAGR drops below 6 percent during any 10-year period or when the maximum difference between growth rates in any two consecutive periods exceeds 4 percentage points.

³ Companies that were able to restore growth to at least 1 percentage point above real GDP growth through the end of the period.

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skills required to successfully complete a very complex assignment. Active engagement from the entire senior management team, including the CEO, will significantly increase the chances for success. Indeed, the management team should be actively involved right across the board—learning about new opportunities, helping to shape solutions to problems and accepting a wider range of risk than individual business unit managers would be willing to support.

Choosing the playing field

Most companies we have studied seem to quickly reach the conclusion that the best place to look for growth is not in new white spaces but in places near their core businesses, a space UPS refers to as “market adjacencies.” The probability of success is much higher when new ventures can leverage the core capabilities resident within these existing business. At the same time, however, it is often difficult to be truly innovative if the team views customer problems and industry boundaries solely through the lens of the existing business.

As one screening criterion for choosing the playing fields of the future, Accenture chose to focus on the time horizons during which we expect to solve different types of problems. We also considered macroeconomic trends, specific changes in industry boundaries and customer values, and competitive landscapes.

Identifying, developing and testing individual ideas

One of the most difficult steps in finding new revenue growth is the identification of new opportunities to solve customer problems or define entirely new market segments.

Internal employees are not always able to see the potential leverage points for applying existing capabilities in innovative ways to create new solutions, because they are trained to use those capabilities to deliver predictable results on a recurring basis. At the same time, however, employees frequently have lots of ideas about how the company could innovate using existing internal capabilities to generate new revenue streams. A disciplined process for collecting new ideas from both internal and external networks and scoring those ideas against common criteria is a critical enabler to systematically finding the best opportunities.

Evaluating individual ideas should start with a high-level assessment of the potential revenues available in the event the idea can, in fact, be executed. A reverse income statement that tests the assumptions about market size, market share, pricing and customer take-up rates can quickly eliminate ideas that lack sufficient growth potential. Completing this type of rapid analysis before spending time on developing operating models, projected income statements and investment requirements, and other planning assumptions can help the company quickly focus on those ideas that can generate new growth platforms.

The ability to connect the dots between ideas and to group ideas around the strategic decisions to pursue specific new growth platforms is important for any company seeking the kind of innovative proposals that GE would describe as true imagination breakthroughs. Typically, managers from the core business weigh in with an informed point of view.

But each idea requires substantial work to develop it further. Marshall McLuhan once observed that “a point of view can be a dangerous luxury when substituted for insight and

understanding.” This is particularly relevant as a company’s teams take on the task of actively learning how each opportunity can be shaped for success in the markets.

The processes used to test and develop new businesses differ substantially from those required to consistently deliver expected results from existing businesses. New businesses often require an active learning approach, which, in turn, is likely to involve higher failure rates than the core business. It is important that companies create a team capable of operating in this type of environment and not assume that measures of success from the core business will apply to the opportunities under development.

The development of individual ideas should be managed using a stage-gate process to test key assumptions and actively shape the idea with a clear understanding of what works and what doesn’t in specific markets. The management team involved in this type of development work must be comfortable with rapidly adjusting assumptions and continuing to shape the idea as new insight and knowledge is acquired.

Leveraging the core business

It is critically important that the teams charged with developing new business opportunities achieve a practical balance between separating a new business opportunity from the core business during development and incubation activities, and leveraging the internal capabilities that could be used to increase the probability of success of generating new revenue streams.

As a new business is being shaped to fit the needs of the market, it is often necessary to make sourcing decisions, change marketing and sales strategies, test pricing models and move quickly to change the

business model. Therefore, shielding the new business teams from the company’s standard management and business processes is essential; indeed, research from multiple studies suggests that this autonomy is a key success factor.

Independence from the core business does not necessarily mean separation from existing capabilities, however; these could be leveraged to create a competitive advantage as a new business opportunity is pursued. For example, P&G assumes that existing distribution channels and trusted relationships within the consumer products supply chain can be leveraged to support growth for many new business opportunities. Plans to leverage that capability are one of the screening criteria used to choose new business ideas for development. Active planning to leverage core capabilities is an early indicator that development teams are creating a balanced plan for future success.

The ability to consistently identify, develop and bring new growth platforms to market is difficult to develop within corporate processes designed to sustain profitability and incremental growth. Successfully bringing new solutions to market requires distinct skills, substantial effort and continuous focus over multiple financial cycles.

Management teams intent on creating new growth platforms must often take a leap of faith as they invest ahead of the market. They must be willing to experiment and disrupt existing solutions. They must be confident in maintaining investments across fiscal reporting periods even in the face of financial pressures in the core business. The rewards for success are high performance, sustained market leadership over time and satisfied customers looking forward to the next round of innovation and value delivered.

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