Turning Growth into a Game of Skill

By Michael Treacy

After the biggest economic downturn in a generation has flattened demand, and companies have completed their cost cuts and trimmed expectations, executives have turned their attention to the challenge of growing in a slow growth economy. It is instructive to these efforts to evaluate past mistakes and to learn lessons that have been obtained at high cost before the tide of market growth last receded.

There are at least three observations we can make about past growth efforts. First, when markets soured, most firms successfully relied upon a systematic ability to cut costs and preserve profits. Few firms though had the same systematic ability to sustain growth. There appears to be a large difference between organizations' skills in *cost management* and *growth management*. Second, few management teams demonstrated an ability to grow when their markets weren't growing. In retrospect, past growth has been more *a game of luck* than *a game of skill* for most firms, propelled by the energy of rising markets. Third, trusted growth plans were overwhelmed by market change and most organizations couldn't learn and adapt fast enough to maintain momentum. In changing markets – which is every market today - profitable, steady and fast growth requires much more than a fixed plan, and that's where we'll start the discussion.

For more than a decade, we have studied the challenges of profitable growth as academic researchers, as consultants to some of the world's best growth companies, and as practitioners driving the growth of ventures we have launched. We have sought to understand why some companies are able to sustain steady growth performance, while most others struggle. Our research has taken us into more than two hundred companies worldwide. In our role as entrepreneurs, we have developed a practical, hard-won perspective on how to sustain growth, especially in environments of flat demand, accelerating change and increasing uncertainty.

Through these experiences, we have learned four big things about growth. First, *strategy and planning* are important elements of growth, but they are far from the whole story. A company with a plan is no nearer to growth performance than a person with a New Year's resolution is closer to better health. The missing ingredient is far bigger than "execution", an overused excuse for lagging performance. The organizational capabilities required for sustained growth are broader and deeper than can be captured by the rallying cry of "planning followed by execution". The gritty details that turn strategy into practical, pressure-tested growth initiatives ready for deployment and scaling are only revealed through trial and error testing in the field. Market-based innovation is the essential pathway for connecting expansive strategy to practical execution.

Second, fast and steady growth is built by compounding the effects of steady improvements in only two areas: customer value leadership and go-to-market productivity. In these two innovation laneways, growth companies possess a super-abundance of ideas that give life to their planning activities. They refine and pressure test these ideas into investable growth initiatives through a structured process of analysis and trial & error. Top-down strategic planning provides priority, focus, and direction, but not much more in fast changing markets. A middle-up process of innovation is required to fill out the strategy with practical growth ideas, develop essential details of these initiatives, and pressure-test them to demonstrate impact on revenue. As a result, the game of growth is won by deploying and scaling initiatives that have been detailed, pressure-tested, and proven to drive results. With this approach growth moves closer to being a game of skill.

Our third learning is that growth companies consciously develop sufficient numbers of talented and experienced growth “engineers” so that talent does not become a constraint on commissioning new growth initiatives. Like an Olympic athlete who builds skill and muscle mass demanded by the specific demands of their sport, so too a company must build its people’s capabilities to identify, develop, and deploy growth initiatives. As a result, all growth companies that have built this muscle mass share common attributes that reflect core growth capabilities.

Finally, the foundations of steady growth are *metrics and incentives* that strengthen accountability for growth performance. Growth companies distribute across the management team accountability for four sources of core revenue growth – improving base retention, increasing share of wallet with customers, acquiring new customers, and gaining a fair share of the fastest growing parts of the market. They understand that each source of revenue demands different skills and different corrective actions. They control growth the way they control costs – middle-up – using granular measures of growth performance that allow them to assess, learn, and correct growth initiatives in real time.

Companies that struggle with steady growth make large bets on outwardly attractive, but unproven growth ideas, and have a shortage of smaller, pressure tested growth initiatives that can build upon each other to create large gains. These firms run out of talented people to invest in growth initiatives long before they run out of capital. They try to control growth top-down, using revenue data that measure the symptoms of poor growth, but not root causes. These firms are “on the field without a glove,” manifestly ill-equipped to succeed in a challenging game.

In successful growth companies, senior executives view their primary responsibility as creating the organizational conditions – the management systems – under which the principles for disciplined growth performance can flourish. They create a competitive marketplace of growth initiatives and invest in the best of them. They encourage broad participation – everyone has an idea to contribute to growth. They enable and mandate sharing of best practices which minimizes wasteful rediscovery. And they drive a fast cycle of planning, doing, and learning that accelerates performance and turns competitors into slow followers.

To become a company that grows profitably, steadily, and rapidly requires broad, systemic change. The journey starts with a compelling Case for Action that answers the question, “Why *must* we change?” Vision and core objectives must next be developed to define *who* we want to be, *where* we want to play, and *how* we will define and drive differentiated success. All too often, organizations fail to address these questions in sufficient depth to really grab the organization’s heart and mind and gain broad commitment to a program of change and improvement. To turn a vision and strategy for growth into reality, *all* functional areas of the organization must be realigned to meet new definitions of success and systems for strategic planning, performance management, incentives and compensation must be improved. Only then can key capability gaps be identified and closed. Do all of this and over time a disciplined approach to growth management can emerge and little by little, growth can become more of a game of skill than chance. Through implementing and adhering to these key principles of change management, market leaders are able to position themselves for superior and sustainable growth while leaving their competitors lagging behind.

Growth management can become a game of skill, just like cost management. It requires a comprehensive system of management – plans that set focus and priority; growth initiatives that realize the plan through the compounding of small, rapid innovations; talent skilled in building market savvy plans and detailed, pressure-tested growth initiatives; and a system of measures, incentives, and controls for guiding a portfolio of growth initiatives toward an expected result. It is within reach for every firm.

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