TOP NINE MYTHS OF REVENUE AND GROWTH

Myth four: The perils of sticking with a winning formula

In the **Top Nine Myths of Revenue & Growth,** a nine-part series, AlixPartners spotlights the changing calculus of top-line revenue strategies and suggests ways companies can overcome commonly held revenue and growth myths as they pursue—and achieve—profitable growth.

FOR COMPANIES SEEKING TOP-LINE REVENUE GROWTH, THE RULES OF THE GAME HAVE CHANGED.

Across industries, market dynamics are evolving at an ever-increasing pace as companies derive data-driven insights and apply digital strategies to move quickly and decisively in order to adapt and grow.

WITH THOSE NEW RULES COME NEW STRATEGIES.

Now more than ever, speed to results and rapid execution in sales, marketing, pricing, and profitability are becoming fundamental to remaining competitive. Many commonly held assumptions have been rendered obsolete, yet many companies still fall prey to the myths as they struggle to respond to the competition.

AVOIDING THE MYTHS AND ACHIEVING TANGIBLE GROWTH.

With the changing rules of the game, how can investors and managers overcome myths and maintain or enhance profitable growth? More important, how can they execute while staying strategically nimble enough to remain responsive to the market and not only survive but also thrive?

MYTH FOUR: THE PERILS OF STICKING WITH A WINNING FORMULA

"What do you mean we have to change what we're doing? We're making good profits, growing fast, we can't keep up with all the new customers! And you're telling me to stop doing what got us here?"

More than once we've had this conversation with a founder/leader of a fast-growing company that has recently emerged from the later-stage growth or startup phase. Our response is unequivocal: for continued success, you have to operate differently. Scale changes everything—not least at private equity portfolio companies, whose executives often work with the management teams to usher in the next stage of organizational evolution.

Something intriguing happens to a company when it emerges from the startup chrysalis and shifts into a rapid growth phase. As revenues approach $1 billion, sales professionals, R&D resources, and support functions suddenly find themselves under strain. Earlier decisions taken on the fly to win new customers or satisfy existing ones lock the company into practices and promises that could constrain continued profitable growth. Managers are so consumed with meeting the demands imposed by rapid growth that there seems little time to circle back, review the performance of key functions, and make the changes necessary to support a significantly larger operation. Even as the company struggles to cope with the new demands that success imposes, there is little appetite to refashion the organization. Why change what has worked in the past? Why can't we just keep doing what got us here?

The status quo is unsustainable because companies as they scale up need strong evaluation and prioritization processes for sales, R&D, and delivery. Those processes simply aren't in place in the early stages of a company's development, when an entrepreneurial culture prevails. Remaking that culture requires companies to set aside one-size-fits-all processes and create new processes fit for growth at scale. It's then management's job to implement them, matching the pace of change to each function's capacity to absorb it.

Without such processes in place, rapid growth can expose functional shortcomings, as it did in the R&D function of a software-as-a-service provider that we worked with. During the startup phase, the R&D function epitomized the company's freewheeling entrepreneurial culture. Product development was largely an ad hoc activity, driven by the founders' aspirations and their interests in the product and technology, as well as the needs of a big early client whose business helped put the company on the map. As the company grew, the original R&D team retained a strong influence over the product-development roadmap—not always to the organization's benefit. For example, although the team monitored its own ROI, there were no organization-wide standards for acceptable returns in place. Moreover, business-oriented portfolio management was rudimentary, and tradeoffs involved significant effort and took an emotional toll on executives, making revenue maximization a real challenge.

In addition, there was no standard process for shifting high-leverage tasks to low-cost territories and no strategy for locating R&D centers. Talent was spread thin, with concentrations in certain areas considered high-profile or glamorous, but no rigorous and uniform standards for performance or expertise. There were no formal processes for sun-setting products or product features, and the company fell into the practice of redeploying resources to waning products in the hope that new features would stem market share erosion.

That approach worked well enough when the client was in its early stage of development and cost and return on investment mattered less than fielding a product that the market would pay for. But as the company started to operate at scale, the need for discipline and formalized processes increased rapidly. Company leaders realized they needed to develop detailed ROI forecasts before adding features to the product roadmap, while also considering the implications of those features for risk and resource allocation. Other scale-focused enhancements included establishing processes for assessing opportunities to offshore some elements of R&D and for evaluating products that were approaching maturity or deviated from the development roadmap.

At another client, we helped develop fit-for-purpose processes to enable the sales function to meet the exigencies of scale. During the startup phase, the client's sales teams were so focused on winning new business and adding new names to the customer rolls that they agreed to heavily customize existing products, with little regard for the impact on the product-development team's ROI or the product-development roadmap. Before long, the company had to contend with proliferating SKUs that added complexity without a commensurate return on costs. In addition, although many of its sales contracts allowed it to charge for after-sale service, it had never set up processes to calculate, charge, or collect the money, leaving millions of dollars of potential service revenue on the table. We helped the client set up formal, cadenced product-portfolio reviews and create and implement "smart contracts" that automatically billed for service calls.

A FRAMEWORK FOR ACHIEVING GROWTH AT SCALE

We have developed a framework (figure 1) for addressing these and other issues that arise as a company scales up by systematically considering questions of effectiveness, efficiency (that is, productivity), and risk.

The first set of questions revolve around effectiveness. Are functions performing the activities and processes required to do business at scale? Do they add the value expected of them? Does their performance match that of best-in-class organizations? How much investment is required to raise performance to best-in-class standards, and where should it be directed? What activities that add little value or contribute little to performance can be eliminated? And can the funds supporting these activities be reinvested elsewhere for growth? Should service levels be adjusted up or down to keep pace with relevant benchmarks?

The next questions pertain to efficiency. Are all functions performing as economically as possible? Are they making the best use of the technologies available to them? Have processes been optimized? Automated? Are functions reviewed for duplication of effort? Are shadow organizations developing within the formal organizational structure? Has management explored when and how to use low-cost locations?

FIGURE 1: FOR ANY PROPOSED TRANSFORMATIONS, WE GROUND ALL IDEAS AGAINST FUNCTIONAL SCALE/ PRODUCTIVITY LEVELS AND MANAGEMENT OF RISKS

EFFECTIVENESS (SCALE)	EFFICIENCY (PRODUCTIVITY)	RISK TO SCALE (WHAT IF?)
• Are functions performing required activities and processes? – Do they add expected value? – What are service levels versus best in class? • Where are investments required? • What activities can be eliminated? • How should service levels be adjusted?	• Are functions performing as economically as possible? • Is technology being effectively leveraged? • Are processes optimized and automated? • Are functions avoiding duplication and shadow orgs? • When and how should low cost locations be used?	• What are potential risks and mitigating actions? – What are levels of exposure? – What is predictability? – What is potential impact? – What steps need to be taken to mitigate?

Finally, assessing fitness for growth entails consideration of the risks involved. What are the risks of operating at scale, and what is the degree of exposure? How predictable are the risks, and how should their potential impact be measured? What can be done to mitigate the risks? How quickly should a company move to new processes or focus areas?

These questions serve multiple purposes. Most immediately, they help management define and baseline the company's ability to scale. Further, evaluating fitness for growth at scale through the effectiveness/efficiency/risk framework could reveal opportunities for significant margin improvement. How significant? As much as $100 million at a company with $1 billion in annual revenue—$100 million that can be reinvested in high-growth activities.

Companies that consider these questions in advance could, like our clients discussed here, step up performance as they scale by installing and carefully managing processes that will support future growth initiatives. The questions can also inform the strategic planning process and help management develop a future-state organizational model. And they can guide management through the stages of growth by creating formal, stable frameworks for prioritizing operational upgrades, controlling hiring, improving systems capability, and making processes more efficient and repeatable. Moreover, this approach could actually help companies retain some of the flexibility they enjoyed in earlier stages of their growth. Ultimately, the questions should yield a detailed picture of what's required to operate at scale—and a much improved understanding of why sticking with the status quo really means going backward.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.