Profitable Business Growth Step by Step

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Let's suppose you want to grow your business substantially. You have identified the product or service areas with the greatest potential, you have a plan showing the costs and revenues involved, you know what everyone needs to be doing, everyone is committed and raring to go…. You are now at the point where most growth initiatives start to fail.

In the military they say "no plan survives contact with the enemy". This white paper looks at how to ensure that your plan for growth survives contact with reality.

We are assuming here that you have the prerequisites – you have a product or service that the market wants, and the capabilities to produce it economically and sell it effectively. Even once you have those, there are financial and people pitfalls on the way to profitable growth.

Here are the top six in our experience:

1. **When the going gets tough, the tough get distracted.** When unforeseen events arise, *as they inevitably will from time to time,* proactive initiatives get put on hold while people fight the fires. Once the blaze is out, people have been distracted and the growth plan never recovers momentum. How many strategy documents lie gathering dust, never to see full implementation, because of this phenomenon?

2. **Buying-in to the plan leads to getting whacked.** People find that they are inadvertently *punished* for attempting to implement the new plans. For example, a group of associates in a property consultancy were participating in a project to boost business development. Those who enthusiastically embraced it and began actively marketing and networking soon realised that they were doing so for no extra reward (actually to their loss of time) relative to their colleagues who stayed in the office doing fee earning work.

3. **Growth inadvertently feeds unprofitable (loss-making?) activities.** Most businesses have unprofitable bits to them: you need to be sure that you aren't energetically growing those. You don't want to be like Cable and Wireless who grew rapidly then realised that 80% of their customers were unprofitable!

4. **Vested interests protect themselves with lip-service commitments.** People have agreed to the growth plan – you think they are on board so you commit to your plan – but they have no intention of following through because their current safety is threatened. Example: sales managers who really need to delegate to their sales force may be reluctant to give up key customer relationships that they see as a hedge against future employment uncertainty. They can't really admit this and appear super-agreeable to new

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proposals in your planning and strategy meetings – this kind of stalling can go on quite happily for years.

5. **There are a lot of financial plates to keep spinning – it's easy to drop one.** Most growth has to be financed out of operations – you usually can't raise more money to do it. This means looking hard at the profitability of the existing business. As you achieve growth, you may find it has unfavourable cashflow implications which you need to anticipate and deal with. Therefore, you need a cushion to protect your growth plans when things get tight – if you are doing just well enough now, that won't be enough when you start to grow.

6. **There's a disconnect between the financial and the behavioural.** Unless they are very disciplined, each member of a management team will tend to look at the growth challenge through their own lens, according to their background. This then drives the positions they take in discussions. For example, financial types will, hopefully, caution against overtrading, sales and marketing folk will emphasise top-line growth, organisation development types will promote the importance of empowerment and delegation. In far too many cases, each type fails to heed the wisdom being offered by their 'team-mates', sometimes to the point of being dismissive and rude. It's amazing how easily people take an argument *for* the importance of another aspect of the business as a criticism *against* their own area.

Of course, each of these areas, and some others, must be balanced if growth is to result.

Growth step by step

So how do you use these insights to grow your business step by step?

1. Decide what you want to grow.

If you are looking to grow profits (as opposed to revenue or staff numbers), recognise that some parts of the business shouldn't grow, in fact they should probably shrink. Avoid emulating telecoms company Cable & Wireless who grew rapidly but then turned suddenly through 180 degrees when they realised that 80% of their customers were losing them money. They had been chasing growth in revenues or market share, without sufficient attention to profitability. They ended up with 89% of their customers generating 4% of their revenues and 2% of their gross margins. Allowing for the other costs involved in supporting those customers, they were clearly losing money.

It can be hard work, but you must understand which of your products, market channels and customers make you good profits, which barely pay their way and which lose you money. Without this knowledge, any general exhortations to "Go for Growth" could lead you off in exactly the wrong direction.

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Look at cashflow as well as profit. Growth tends to suck in a lot of working capital, with positive cashflow starting some time after you reach profitability. You don't want any nasty surprises on that front.

2. Create some surplus profitability.

Be realistic. Growing a business substantially takes time and money. You aren't paying people at present to stand around doing nothing, and nor are you wasting lots of money in ways that can be immediately stopped. Unless you want to take big risks with your existing business (the last thing to do when you are trying to grow), you need extra people and extra costs. Most of the time, you will need to find these inside the existing business.

Using the insights gained in the previous stage, decide how you are going to reshape the existing business to fund growth. There are many ways to do this:

- Simply eliminate activities which are losing money. There are probably some of those, and if they can't be fixed, you can boost profits simply by stopping them.

- Identify the customers who are losing you money and fix them. If you know that a customer, or type of customer, is losing you money, it is not hard to renegotiate. Simply being happy to walk away if you can't get a better deal means you probably won't have to – they will sense your confidence and fall into line.

- Reallocate resources towards more profitable activities. Now that you know how your total profit breaks down by product channel or customer, look at whether your sales, marketing and service budgets break down in the same proportion. They may well not – more likely the best resources are allocated to the biggest problems, not the biggest opportunities. Putting this right will boost profitability.

Be sure to create not just the profitability you need to fund the plan, but also a cushion to protect it in the event that other things go wrong, as they inevitably will.

3. Create a transition plan

The best way to plan a transition is to start with a picture of *what things will look like when they are finished*. Imagine you are the subject of a documentary about the successful changes you have wrought. What would you be showing the interviewer and crew to illustrate the results? Answering this question will make the aim tangible, and will tell you a lot about the activities required to achieve it.

Then answer the supplementary question: what is the organisation going to be like *while it is going through* the transition? This question, rarely considered, is important because much

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so-called resistance to change is actually just fear of uncertainty. If people have a sense of the ultimate destination (for buy-in) and some idea of what it will be like on the way, things will go more smoothly.

To flesh the plan out:

- Create appropriate KPIs for new activities: what will be the observable evidence that things are going in the right direction?
- Decide who does what.
- Ensure that they have the resources necessary in order to deliver.

4. Build in ‘plan protection’

The most important part of a plan (the part that often isn’t there) is the risk analysis. The format is very simple:

- What is the risk ?
- How likely is it ?
- How serious would it be ?
- What do we do to prevent it ?
- How do we prepare to deal with it if it happens ?

5. Create leverage of your management time

You are going to need more people, and you are going to need to be able to delegate more to them.

Additional bodies can be paid for using the surplus profitability you created earlier. But more people doesn’t automatically lead to increased productivity. Creating a culture of effective delegation is vital if that additional expenditure is to be worthwhile.

Without delegation, growth is impossible, as millions of exhausted would-be entrepreneurs demonstrate. And, in addition to the personal barriers the leader need to overcome, there are two others. Firstly, what about the willingness of their reports to accept delegated accountability? And then, *they* must also be able to delegate to the next level – or else you’ve just swapped one limit (the capacity of the leader) for another (the capacity of the leader plus that of their direct reports – more, for sure, but still a restrictive limit).

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BOX 1: REWARDS^tm Formula for Effective Delegation

1. **Specify the *results* you want, not the method, and hold people responsible for the result.** In the words of General George Patton "Don't tell people how to do things, tell them what to do and let them surprise you with their results".

2. **Specify *evidence* – how will you both know for sure that you got the result?** Make it absolutely clear what you want to *see*, *hear* and/or *feel* that will confirm the result. What are the KPIs?

3. **Make it clear *why* the result is important at *two levels* of objective above.** Individual jobs, especially staff jobs which are similar even in different industries - HR, accounts, IT, estates - can seem quite disconnected from the strategy of the business. Make it plain how the result you are requesting contributes to the mission of the business.

4. **Make it plain that you are proposing a contract, or *agreement* – ask them if they accept.** You can coerce people to do things, but that's not delegation. You ask them (explicitly or implicitly): "Are you prepared to sign up to this? If you do, you are accountable."

5. **Allow the assignee to negotiate changes to the specification, including *resources and support.*** Ideally you want someone who says "Yes, I can make this happen for you, as long as I have the following resources"

6. ***Document* the agreement.** A simple email will be enough in some cases, in others, something more akin to a project proposal, with milestones, metrics etc is needed.

7. **Monitor and *support*,** but don't solve all their problems for them. There's a difference between delegation and abdication.

8. **On completion, acknowledge result and give out rewards, if appropriate.** This doesn't have to be a big deal, but it shouldn't be skipped either. Since real motivation is intrinsic, the best reward comes from helping the person feel personal satisfaction and an increasing sense of competence.

(Adapted from Andrew Bass's *Notes on Delegation* © Andrew Bass 2006)

Good delegation is a coaching process, not a one off assignment, or worse, abdication, of responsibility. Ultimately the aim should be to educate people in the links between their behaviours, drivers of business results, and overall business ROI. i.e share the KPIs and make sure everyone has an indicator which tells them how well they are contributing.

6. Get the indicators right

Developing suitable key performance indicators for early stage businesses can be problematic. Many established businesses are run with few indicators beyond the profit and loss account, but this won't do in the early stages. You can't hold people to normal standards of profitability in the early days, but releasing them from that discipline can result in them running wild. You need a range of measures to make sure you are staying on track.

Two very good indicators are cost of customer acquisition and lifetime customer value. You many be losing money in the new business because you don't have enough business to cover fixed costs, but if you see that you can acquire customers at an average cost of £10,000 and they make you £50,000 over a likely three year lifetime, you have a good basis for continuing to invest in the new business. If on the other hand the cost of acquisition is £30,000 and the value is £25,000, no amount of growth will bring you to profitability.

Other KPIs to consider include:

- Whether project milestones are being hit;
- The percentage of prospects who convert into customers;
- The percentage of first time customers who buy again;
- The proportion of customers who fit the "ideal customer" profile you identified when you started.

7. Make sure you really are incentivising the right things

This may seem obvious, but if there is a formal incentive system, make sure that it promotes the efforts needed for growth. The incentives need to be based on the indicators you are using for the new business.

Recall the example of the property consultancy associates who threw themselves enthusiastically into networking activities but then equally quickly lost their enthusiasm. Building business relationships one person at a time is crucial for many professional advisors, but it takes a while to yield results. Those who bought into the initiative were sincere in their efforts. Meanwhile, however, their less energetic colleagues were achieving much more flattering utilisation rates (on which they were rewarded) by eschewing business development and staying in the office to work on existing (but finite) projects. If business development one-to-one is important, people have to benefit by attempting it.

Once the formal incentives are properly aligned, you need to see if there are any less tangible factors pulling people in the wrong direction. For example:

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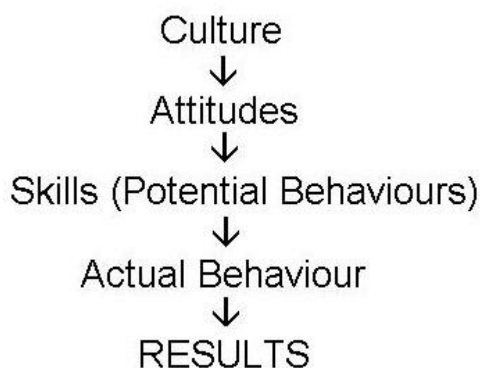
- People don't feel competent in new roles
- Sales people don't want to relinquish day to day contact with accounts (these relationships are their long term job security)
- Senior management won't accept that managers are not so in touch with the day to day
- Most people, when under stress, tend to revert to old patterns of behaviour. You need a way to spot when this starts to happen and correct it.

8. Don't abdicate behaviour change to trainers

As a business grows, people will naturally be required to do new things. When behaviour change is required, the solution often attempted is to either issue edicts or provide training. The first of these is extremely hit-and-miss: we remember a senior civil servant bemoaning his own boss's naiveté about management with the memorable phrase that "He seems to regard a memo as a proxy for action".

The second response, training, is widely misapplied, with disappointing results. Training is a limited intervention because it only addresses abstract skills (which are *potential* behaviours and no more). Let's consider the case of delegation as an example. As we have seen, the delegation formula is simple enough. Most people can learn it in a workshop or coaching session and demonstrate in a case study that they have enough understanding to apply it. Nonetheless, delegation training seminars may have little or no effect in creating the desired leverage.

To understand why, consider the following diagram:



Each level is switched on or off by the one above it. If a reluctant delegator has the attitude (reinforced perhaps by cultural assumptions) that they will only be credible to their bosses if they know every tiny implementation detail within their purview, then their delegating skills are effectively disabled – they don't produce the behaviour. No amount of skill building will help such a person unless it also addresses their attitude. And to do this it will almost certainly have to address the attitude-shaping power of culture.

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The key things is that there is a cultural override which is more powerful than requests, instructions or indeed training. When a training course is effective, for example, you can be sure that the culture already supports the desired behaviours, or that someone (managers, trainers, consultants) made adjustments to the culture in sync with the training.

The most elegant leverage point for influencing cultures is to change the behaviour of those from whom everyone else takes their cues: it can be a formal boss, but it may equally be an informal leader, top performer or charismatic individual contributor. Identify these people and get them on board first, and behaviour change initiatives, including training, will have a much greater impact.

Summing Up

An awful lot of businesses proceed in fits and starts, enjoying one or more periods of growth, then getting comfortable and ending up on a plateau. Having lost momentum, the next spurt only comes after a shock or injection of energy from the outside. Imagine in contrast the power of an organisation where a continuing process of growth and innovation is standard operating procedure – an organisation where the disciplines of growth are part of your ordinary day to day business, not something that gets turned on and off when external events leave no choice.

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To find out more

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