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Ingredients for creating and sustaining growth for the long term

Singapore Management University

INGREDIENTS FOR CREATING AND SUSTAINING GROWTH FOR THE LONG TERM

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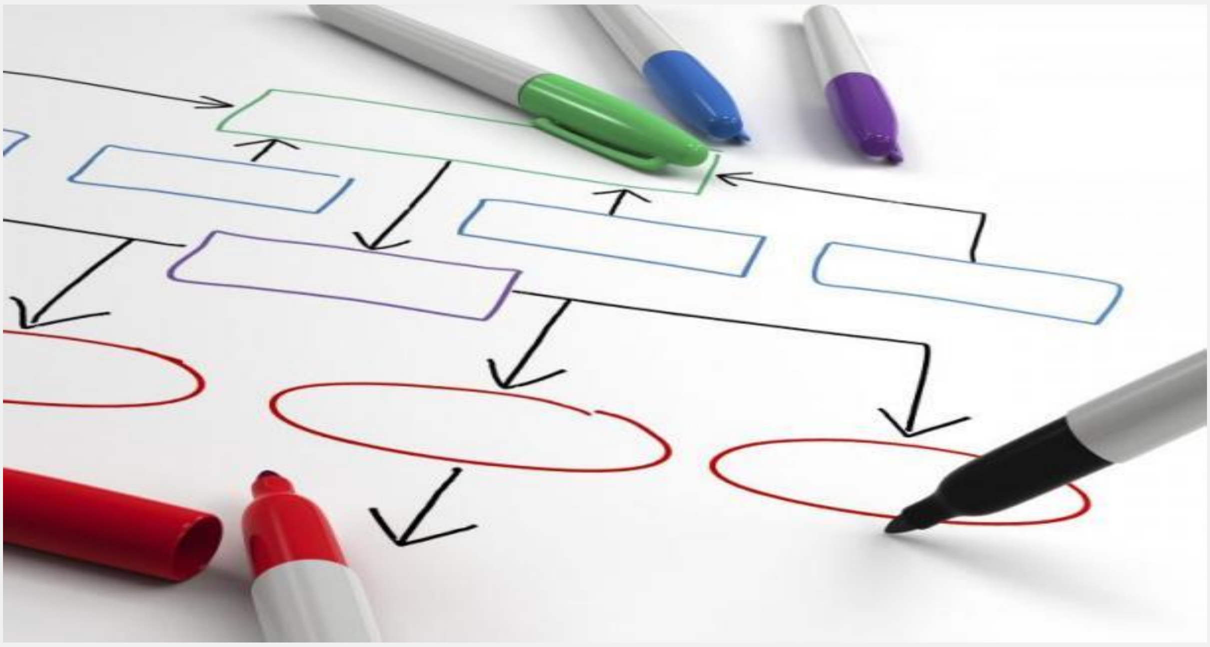

It is easy to explain why organisations need and want to grow. This applies not only to bottom line-oriented companies, but also non-profit entities. Just like the same way business management skills can and should be applied to public sector and not-for-profit set-ups, these organisations do seek growth too. However, while it is easy to engineer short spurts of growth one way or another, what differentiates a successful organisation from one less so, is whether this organisation can sustain growth over the long-term and achieve continuous success.

At a recent seminar organised for the National Trade Union Congress (NTUC) by SMU's Office of Executive Education, Philip Charles Zerrillo, a professor of marketing at the Lee Kong Chian School of Business shared some ideas on how organisations can achieve sustainable growth. Zerrillo, who is also SMU's executive director for its Post Graduate Coursework Programme, holds a doctorate in marketing from the Northwestern University's Kellogg Graduate School of Management. Unlike other lifelong academics, before he joined the academia, Zerrillo worked as a stock broker and was also con-currently host of an investment advisory radio programme.

First a quick recap on what "growth" will do for an organisation. According to the seminar participants, a growing organisation will create a greater impact, generate more revenue, which can then be channelled into further investment for future growth, as well as creating wealth for the organisation and its people. An organisation with growth momentum will find it easier to reach out to more people, touch more lives, even as it creates better and more satisfying career opportunities for its staff. In the same vein, a growing company, compared to a stagnant one, is certainly more attractive in the eyes of many talented job seekers looking for an avenue for their next challenge.

Optimal value for all

However, as organisation pursues growth, it is easy to lose sight of the surroundings. An organisation, however large, cannot function alone. It exists within an ecosystem of sorts. What is underlying an organisation’s growth is the value this organisation can bring to the table. Thus, an organisation needs to create value – not just for itself, but also for others within its eco-system.

The way Zerrillo put it, an “optimal value proposition” is created only at the intersection of three types of value: customer value, company value, and what is often forgotten or ignored, collaborator value. Stripping away this academic parlance, “collaborators” in the real world, will most likely refer to for example, a distributor of a company’s products. So even if the selling price for end consumers is lowered, a company should also try to make sure that the profit margins of its distributors are taken care of in the meantime. “If you don’t have something for everybody, things will get a little bit difficult – that’s the importance of collaborators,” explained Zerrillo.

However, before an organisation can try to create value for all, it does help to have some form of guidance, and there is no better guide than what a customer wants. To be sure, there are famous pronouncements by the likes of Apple’s Steve Jobs, who dismissively notes that his company creates products that they think customers will want rather than what customers themselves think they will want to have.

Nevertheless, not every organisation can be an Apple. In the words of Philip Kotler, one of the biggest names in marketing and Zerrillo's professor at Kellogg, everything starts with the customer – and business models should be developed from that end point.

Responding to information

Even with information on hand on what customers want, an organisation still needs to do more. If this organisation is “responsive” enough, it will go beyond looking for information. They will then try to disseminate that information throughout and to its collaborators so that they can together make better choices. “It is about making choices, making good choices. Those firms that share information, have good information, tend to have levels of performance metrics, like sales, as well as ‘soft’ metrics like employee loyalty and customer satisfaction,” said Zerrillo.

Next, to stimulate growth, Zerrillo identified five mutually exclusive market responding growth drivers – and the commercial world already has plenty of successful examples to show.

First, *improve retention*: Telecommunications companies, for one, know how costly and difficult it is to sign up new customers. More often than not, before new customers will bite and submit themselves into service contracts, there is almost always a significant upfront cost that the telecom companies have to invest in the form of handset subsidies. Similarly, the telecom companies can also work out how much it costs when a customer scoots away, and how much it also costs to make customers stay. It is not too difficult to imagine that retaining a customer costs the least and therefore makes the most sense.

Also, companies can try to impress upon their existing users *new uses for their products*. The baking soda making industry had seemingly reached its plateau. However, when new uses for baking soda were introduced, like for example, as cleaning agent for jewellery, or an odour removing agent for the refrigerator, sale of this product shot through the roof.

Companies can also try to stimulate existing customers to *use their products more*. Dipak Jain, dean of Insead and also a marketing professor, did a study showing how if certain mundane everyday items like toilet paper, coffee, are readily available in greater quantity, consumers will tend to use them more and subconsciously worry less about running their stocks down. In a similar vein, Coca Cola cut down the amount of carbonation in its signature beverage, which means people drinking Coke will not feel bloated too quickly, and thus leaving them room to consume more. “We are only bounded by our creativity in these areas,” said Zerrillo.

Fourthly, companies can also try to *steal customers from rivals*, although the ease which this can be done probably varies. Last but not least, companies can try to *bring in new customers* that were previously not within its addressable market.

Changing customer behaviour

In a related expansion of stimulating growth, sometimes, companies should leverage on their expertise rather than to only adapt to what customers want: they can influence customer behaviour. First, they can try to impress upon the customers the kind of new benefits that their products can offer. For example, chemicals giant Dupont developed a compound that can make carpets more resistant to stains, which helps carpets last longer.

Next, companies can try to alter the attributes of their products. For example, Swedish car maker Volvo has, over the years, built a solid reputation based on just one key attribute. “Volvo is all about safety, we buy Volvo because it is safe,” Zerrillo noted. However, even this attribute of safety has been modified over the years. Just as an illustration, Volvo’s marketing messages back in 1988 highlighted the vehicle’s crumple zone. Four years later, it was about airbags, and by 2000, it was about surround airbags and not merely airbags for the driver bursting out of the steering wheel. In 2004, as more electronic parts find their way into vehicles, the safety attribute was fronted by navigation and telematics systems.

Similarly, for the personal computer industry, the marketing message was all about the speed of the processor and almost nothing else, even though a notebook computer for example is certainly more than how fast the Intel or AMD chip can calculate. The industry, aware of this limitation and facing ever-greater competitive pressure, began to explore other ways to make their products different and more attractive. They started giving heavier weightage to other attributes, like battery life, the weight of the whole computer, the brightness of its display screen and so on.

Growth culture

An organisation’s leaders can talk all day about creating growth, but real change cannot be achieved without everybody’s participation. An organisation needs to cultivate “growth champions” throughout the entire hierarchy. Especially for larger organisations, so-called “innovation coaches” or “ninjas” should be identified and conferred with this title and responsibility. Their job is to inspire and guide their colleagues along. Companies need to support these individual growth champions with a properly-planned and comprehensive framework to see through the innovation process. Everyone should try to understand where, within an organisation, the most change can take place with the least commitment of resources. And of course, ways have to be found to quantify the progress, if any.

According to Zerrillo, the guiding principles for growth should include: everyplace is a potential point of innovation and growth; every function can serve as a point of differentiation; every process can be made effective; a series of small innovations are often the most powerful instead of having one Big Bang; and an innovation culture is a reinforcing culture.

It is with these various set pieces in place that an organisation can then seriously aim for sustainable growth. According to management guru Michael Porter of Harvard Business School, there are three sources of growth. First, at the bottom of this three-layered pyramid, is growth that a company can enjoy when it achieves operational excellence. Things would be plodding along fine, the company is seen as competently doing what it is supposed to be doing and the company can maintain its stability within a benign operating environment. However, while an organisation at this stage is exposed to little risks, the returns are likely to be correspondingly low.

On the other hand, at the apex of the pyramid, is inorganic growth. The mergers and acquisitions, while sexy for the headlines and lucrative for the investment bankers, are for the organisations themselves, a source of growth fraught with high risks, supported by the chance of high returns.

Ideally, organisations seeking sustainable and profitable growth should aim to do so organically – by expanding on their "core sweet spot". Under this ideal systematic framework, profitability becomes more sustained and shareholders will get to enjoy higher levels of returns than on the cost of the capital that they put in. To be sure, there are risks, but if this is achieved, higher returns can be savoured for a longer term.