Building a Growth Engine

Four Steps to Close the Quantum Growth Gap

Businesses that have not been actively seeking growth opportunities could fall behind in a low-growth environment. While there is a general feeling that the future will be brighter than it is now, leading companies are sharpening their strategic focus on the future and carefully evaluating their growth plans to ensure that they grow faster than the imminent recovery.

The dominant forms of growth CEOs and business unit leaders have often defaulted to are growth through massive and obsessive, non-strategic cost cutting; ultimately, non-value-adding serial acquisitions; defensive, but potentially deadening, consolidations; or, most frequently, short-term, one-off initiatives – all of which are not sustainable.

A more suitable approach is to design and deploy a Growth Engine – which is a systematic and repeatable organisational capability to achieve and maintain profitable and significant growth.
The average volatility in earnings growth for the S&P 500 has increased by 10% per decade since the 1960s. The knock-on effect is obvious: Delivering strong predictable and sustainable growth has never been more difficult!

**What are the business drivers?**
Given the volatility and unpredictability of the markets in recent times, it is also of paramount importance for CEOs to think about the new paradigms the future will demand and what it will take to succeed in an increasingly turbulent future. This is a future where the intensity and frequency of market and competitive change makes sustainable growth even more important and elusive. The difficulty of growth is also compounded by the realisation that past successes and experience cannot merely be extrapolated to create future success – what is required is an entirely new approach to creating external growth opportunities to ensure one is well positioned for the recovery.

**What are the business issues?**
In this dynamic market environment, and in response to shareholder demands, executives are committing to higher-and-higher stretch growth targets, with less-and-less knowledge and/or confidence in how they can achieve this growth. We call this the “Quantum Growth Gap”. Delivering on the promise of top-line growth is further complicated by shareholders’ relentless requirement that it be both predictable and sustainable. However, the average volatility in earnings growth for the S&P 500 has increased by 10% per decade since the 1960s. The knock-on effect is obvious: Delivering strong predictable and sustainable growth has never been more difficult!

**What a CEO needs to do**
Companies can close their Quantum Growth Gap by designing and deploying a future-focused growth engine that is aligned to the corporate growth strategy, sanctioned by company leadership and dedicated to creating value on a sustainable basis. The four-step approach is as follows:
1 Understand the future context of business, set a “Quantum Growth” target and focus the growth strategy

Consumer culture, technology and business models – everyone knows what the world was like in the past, but what is the inevitable future in the coming decades?

When looking to create a Growth Engine, one cannot merely assume that past successes, processes and methods will stand a business in good stead for the future. Executives need to understand the forces that will shape their future at least as well as what has shaped their past. In this first phase businesses pose questions such as:

- What new pieces of science and technology will shape your life and business?
- What will be the role of governments?
- What will be the dominant culture when the children of the MTV generation are leading business?
- What will be the growth industries and the growth stocks?
- Where should you be investing your time and money today?
- How do we convert what we know into what someone values?
Follow an eco-system approach to identifying, prioritising and executing new revenue generating entities

Experience has shown the following challenges organisations face when attempting to accelerate external growth:

- Partial and fragmented approach to growth – e.g. a Corporate Development function is one thing; a growth strategy is another.
- External growth may well feature in an organisation’s statements of intent, but few have a clearly defined strategy and mechanisms to deliver.
- Many organisations find they have no shortage of good opportunities but lack the strategy, frameworks, processes and funding required to convert the best ones into value.
- No group-wide long-term growth strategy/roadmap.
- Operational processes have stifled the potential for synergy exploitation.
- No macro view of where the relative investment is being employed.

As many CEOs are looking for investment opportunities to fuel future growth, it is critical that a company have an internal process and platform with the requisite scalability to support multiple acquisitions that span all stages of the deal lifecycle.

During this phase, companies need to ensure:

- Leadership support for a detailed growth plan to create an ideal Business of Tomorrow in the context the company strategy.
- Defined investment and deal making governance process – typically conforming to corporate venturing principals.
- Defined super-growth revenue and profit gap which the growth engine will be configured to close.
- The growth engine organisation structure – dedicated team, roles and responsibilities.

Once all elements of the eco-system are correctly configured, the team fully capacitated and deployed, opportunities will be sourced, prioritised and converted via a customised stage-gate process.

Develop a robust portfolio of opportunities focused on strategic themes

A properly diversified portfolio helps capture most of a growth engine’s gains while reducing volatility. Diversification is the single greatest factor in determining long-term investment returns. “Don’t put all of your eggs in one basket”. This is an old adage, and for good reason. When investing, the less diversified, the more risk an organisation is generally taking. Using the Growth approach, a dedicated team is not only working on one deal at a time, but rather engaging in a continuous process of enriching a deal portfolio with opportunities that are both adjacent to and beyond the current core business model. Opportunities, themed into strategic priorities identified in Step 1 are constantly prioritised and converted into deals on a repeatable basis, ensuring the “engine” characteristics that make the entire initiative sustainable and repeatable.
Implement via a phased approach that is focused on value creation

Phase I: Design
- This phase is primarily focused on creating a future-based strategy by drawing on a large network of gurus, clients, experienced practitioners and academic leaders to conduct consistent briefings within a strategic planning horizon. These are a series of powerful briefings and debates on the future of business, technology, consumers and the world in which we will have to compete – powerful ‘action scenarios’ are developed that prompt questions and debates about future choices.
- In this phase the executive team’s Current Reality mindset needs to be established and aligned in terms of:
  - Ideal Future vs Likely Future
  - Initiatives and projects
  - Capabilities and competencies
  - Low-hanging fruit opportunities
- The Growth Engine platform also needs to be designed. This dynamic eco-system integrates existing processes and articulates the investment and resources required to achieve the quantum growth target.

Phase II: Build and Strengthen
- In this phase the engine is deployed by a fully capacitated team of strategic and entrepreneurial specialists.
- This is also when significant effort is expended in the creation of a Market Insight Network (MINE) to harvest opportunities from a myriad of sources.

Phase III: Maximising Value
- Once deployed, the team becomes completely focused on sourcing, prioritising and converting opportunities into tangible value.

Phase IV: Transfer/Support
A growth engine cannot be operated on a fully outsourced model – you will need to take on much of the process knowledge, recruit key skills and take control of the entire lifecycle to ensure self sufficiency.
Conclusion

Transformational growth does not happen by chance in an organisation. The reasons are varied in this regard, but typically funding “Business of Today” projects will always beat investing in “Business of Tomorrow” opportunities. This is logical, the returns are clear and the risk is understood. The impact however is that you develop a highly efficient but perhaps thinking entity that it not well positioned for the future.

It is only when a dedicated team is deployed to operate as an engine for growth that provides unfettered access to unexamined opportunities, as well as providing the focus, discipline, infrastructure and market intelligence necessary for the discovery, evaluation, and commercialisation of new growth opportunities.

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