CEO MINI-BRIEF #1
EFFECTIVELY MANAGING YOUR ORGANIC GROWTH

By Dan Wasserman

Smart CEOs instinctively know they have to be constantly growing their business. To accomplish this some unfortunately resort to micromanaging (especially their sales force) while others prematurely turn to venture funding.

Both of these activities are expensive and counter-productive in spite of any apparent short term gains. They result in diverting attention from leading a company to over-control and chasing money. Furthermore, when companies don't perform, or get the necessary funding to grow, they often die or become acquired at a value far below their true worth.

However, there is a third option -- ***managed organic growth***.

To properly manage this type of growth and achieve the desired results, professional guidance is recommended.

From my experience, the most effective way to manage organic growth is applying an appropriate mix of the following 6 functions:

1. Marketplace analysis
2. Customer feedback
3. Proof of concept
4. Alternative revenue streams
5. Strategic relationships
6. Effective promotion (including press management, trade shows, introductions, etc.)

This approach allows you as a CEO to optimize corporate strength, develop the company to its true potential, and inherently attain a significantly stronger balance sheet than they ever imagined.

Let's examine each of these functions.

Marketplace (Competitive) Analysis

Analysis of the marketplace is critical to helping a CEO manage their organic growth in two ways. First, know what your competition is doing and second, identify both what sets you apart (your unique selling proposition) as well as where hidden opportunities lay.

If you don't understand the market in which you operate, how do you expect to succeed?
This fact was hammered home early in my career when I developed the competitive analysis tools used by IBM for the launch of their Personal Computer. These held the

company in good stead, ultimately across a wide range of products and services, for over a decade.

The simple lesson is, competition is a fact of life and if it doesn't currently exist, it won't be long before it does. As soon as someone is aware of something new, or a significant product improvement, there is competition. This was exemplified by Bill Gates' friend Heidi Roizen, a VC at Softbank, who on an episode of "Biography" claimed Gates said, "Don't ever tell me anything you don't want me to know, otherwise I will come out with a better version and I WILL compete."

Most companies only pay lip-service to the need to fully understand their marketplace. Rarely do they spend the time or resources to fully examine the true environment to see where there are; a) opportunities that can be exploited utilizing elements from within, and/or b) where is the competition leaving itself exposed.

Customer Feedback

Every CEO wants to believe their entire customer base loves their company, products and services. And for the most part, if a company is surviving, it usually has a large enough and relatively satisfied customer base.

However, you're flying blind, until you actually "touch" your customers (both present and past) for usable feedback. A market reality is that a customer often remains a customer for a finite period of time. However, the trick is to maximize revenue generation while retaining the customer on a long term basis, even in cases where there is considerable time between purchases. Customer feedback provides the guidance you need to optimize that revenue stream.

CEOs can be deluded into thinking they're absorbing an acceptable level of "natural attrition" without determining the root cause. They also tend to ignore the maxim "it takes an order of magnitude of greater effort to secure a new customer as opposed to keeping an existing one." Likewise, in our personal lives we're all too familiar with how many bastions of industry have let their customer service departments erode to deplorable levels. Therefore, it is imperative that CEOs critically examine their own enterprises to see where they're failing and the traps into which they're falling.

Furthermore, in addition to being a revenue source, customers are often a valuable resource for input about how to manage your organic growth when properly approached.

Proof of Concept

Another industry truism is that companies founded by non-business people are usually the most reluctant to get a product to market at the optimum time as opposed to the optimum state of completion. In plain English, they miss the key "window of opportunity" because they want the product to be perfect.

Likewise, rushing to market is often risky in spite of the natural pressure to be "the first."

Market testing is the only way to determine if the product really has a future. This requires proving the concept at much more than the laboratory level or amongst a handful of dedicated customers. It means taking the new baby into the cold cruel world as early as possible.

A recent example was a case where the development team clearly identified a market need and realized they could build the product using know-how from an existing in-house capability. However, they neglected to consider the insular nature of that particular market and how much refinement was necessary to gain entry.

However, they were smart enough to realize that by giving what they'd built to the marketing team, at an interim stage, could significantly enhance its chances for success. And, by doing just that, out of hundreds of products developed for this insular, extremely specialized market every year, they qualified as one of only three finalists worldwide for the 2006 Innovation Award!

<u>Alternative Revenue Streams</u>

The ability to find opportunity from within, especially if the majority of costs have already been absorbed, is one of the most enriching ways of improving corporate health and a true measure of building through managed organic growth.

Large corporations, especially packaged goods manufacturers are expert at this and constantly develop "line extensions" of their well established brands. A familiar example is General Mills' Cheerios™ and Honey-Nut Cheerios™, which are targeted to two different user groups. The root product is the same for both, yet by offering a second variation doubles the shelf space and increases the market reach.

The same holds for a plethora of other commodities ranging from durable goods, to defense products. And, even the award-winning company above had effectively developed a new product off what had gone into a preceding one.

As such, the question becomes, what does your company produce that can, with limited additional expense, generate incremental revenue well beyond the margins achieved by the existing "core" product(s)?

<u>Strategic Relationships</u>

Having structured numerous of these business affiliations, it is easy to understand the leverage strategic relationships afford. A targeted association with a well-selected partner; a) significantly accelerates the marketing efforts, b) delivers immediate and high-level credibility, and c) can provide a form of "funding" by acting as an early stage customer who pre-purchases at a critical stage in the company's development.

The only real effort in structuring one of these relationships is working through the corporate hierarchy to the true decision makers. And, for these deals there are at least two to be engaged – 1) the leader of the specific division and 2) the head of the corporate business group.

There always needs to be buy-in from division leaders since they are the entity who directly interfaces with the customers. It is this group who has to understand the benefits while overcoming the traditional "not invented here syndrome."

At the corporate level, acceptance is often leveraged from the bottom up. However, many large organizations are structured so that the individual profit centers are relatively small and the benefits potentially derived from an outside relationship could translate to a significant increase in growth for the interested division. As such, the divisional head becomes the "champion" and often secures the necessary approvals from the corporate hierarchy.

But, a CEO has to be comfortable working with a company that could easily crush any legal attempt made to enforce intellectual property rights once the offering is integrated into the larger entity's product(s) and diffused through their marketing materials.

Well executed strategic relationships, particularly between a small entity and one much larger, is the sign of a CEO who is effectively managing a company's organic growth.

<u>Promotion</u>

The CEO, board of directors, venture capitalists and sometimes even government funding sources, are clearly focused on the development of the product with far too little thought given to what it really takes to take to succeed in the marketplace.

As such, the marketing efforts are often limited, and rarely match what should be done especially when compared with the amount spent for the technological development(s). However, by succeeding to this point and realizing marketing funds are usually tight you should carefully examine your company's promotional activity to determine how to best capitalize on the synergies that are usually available such as:

- press management (including any possible "piggy-backing" of joint releases with strategic partners),
- use of partner logos or trade names,
- sharing booth space at appropriate trade shows.

From experience, often it is relatively easy to raise a company's visibility. But, the key is to clearly define the objectives, set realistic targets, and utilize any cumulative leverage. The outcome is an effective set of tools that facilitate the CEO in managing the company's organic growth.

<u>Case Study</u>

The following case study demonstrates where managed organic growth, utilizing five of the six primary functions (marketplace analysis, customer feedback, proof of concept, strategic relationships, and effective promotion), resulted in tangible results that likely wouldn't have happened under any other circumstances.

Most people don't consider the major telephone companies "start-ups" under any circumstance. However, when it came to their initial involvement with the Internet that is exactly what they were. Today, we look at these "telcos" as a natural source for our high speed access, but in the early days, they really didn't have a clue.

One of my early engagements was the launch of Sympatico™, the Canadian Internet Service Provide (ISP) that was the out-growth of a joint venture set up by the ten provincial telephony providers. Its role was to take advantage of both Internet access (service) and content management. With this in mind they believed a) current customers would flock to whatever the phone company offered, b) an instant user base would support a secondary revenue stream from online advertising, and c) advertising support could be restricted to large corporations (like themselves) and exclude risky web-based businesses. And, they wanted to both organize the web while making it "family friendly."

Figure 1 - Front panel of the actual package

My initial role was to assist them in garnering advertisers. But, how do you get major corporations to commit significant dollars to something that not only was novel, it had absolutely zero users? Fortunately, a number were willing to take the leap. Then the issue became how do you get Internet customers to sign up for a service where they saw little initial benefit?

Within a very short period of time, I approached management and said that without what we now consider "organic" growth we'd have to rebate money to the advertisers. But, if they would let me shift focus, I had a plan.

In this case the competition was from the myriad of "mom and pop" ISPs that had emerged across the country. But, store checks of where the sign-up packages were being distributed and talking to existing customers of other services, it became apparent there was a major disconnect between Sympatico's message and what the target was hearing.

It was all good to say "family friendly" Internet but few saw the need for family access. Furthermore, there was no baseline to determine how many hours of access was reasonable (remember, this was the very early dial-up era), while the company was offering three levels of monthly service based on an annual contract. And, few homes even had a computer!

So, the logical thing to do was to tie together something that would prove the concept (family online access from a family computer), set up a strategic relationship to facilitate this, and then tie in a promotion to take it to the market.

This was all accomplished through a partnership with the maker of Oreo™ cookies (see Figure 1 above)!

Cookies and computers, what was I thinking?

Here's what I was thinking. If you look at the demographics for the most famous cookie in the world, and marry that to the target Sympatico was trying to reach, then package it with an instant win promotion (designed to cover the full country from coast-to-coast) the likelihood of a runaway win was assured. That is precisely what happened. And, it also didn't hurt that Sympatico's CEO loved Oreos!

I was able to pair the size of my client (the phone companies) with Nabisco to fulfill my client's requirement that the advertisers be major corporations. Additionally, the ancillary strategic partners (Compaq, Lexmark, and RadioShack) were also significant corporate players.

Figure 2 – Side and rear panels of the actual package

The actual execution was relatively simple. It involved a combination of printing the offer and terms for the previously mentioned "instant win" promotion on 1.3 million packages of Oreo cookies scheduled for distribution for that year's "back to school" period. The big win included a home computer, color printer, a full year of Sympatico service, and designed so there would be one winner in each of the ten Canadian provinces. However, there was also a consolation prize in every remaining package, of a discount coupon redeemable at RadioShack for Sympatico access and other in-store products (see Figure 2).

Sympatico had determined they needed 100,000 subscribers in the first year to both justify the advertising rates it was charging and to generate sufficient subscription revenue to meet the commitment the company had made to its board. This promotion not only exceeded the Sympatico target by more than 40%, but Nabisco had to go back and bake additional cookies to make up for the unforeseen speed at which the Oreos sold-out.

Furthermore, virtually all the promotional costs were borne by Nabisco giving my client nearly a 100% profit margin!

<u>Gleanings</u>
In the above example the organic growth was attained by focusing on the six key functions and applying them appropriately. Obviously, the <u>marketplace</u> wasn't fully understood nor had the <u>customer</u> base been properly examined (there was no rush to buy the Sympatico service in spite of its "family friendly" orientation, even if it was backed by the phone companies). They also failed to <u>prove the concept</u> except for focus groups, and these concentrated on finding an acceptable name. However, on being presented with a <u>strategic partner</u> that could take them over the top, they immediately saw the benefits and then jointly exploited the <u>promotional opportunities</u>. The only function that didn't play into this scenario was an <u>alternative revenue stream</u>. For the phone companies, establishing an ISP was already an alternative.

The Sympatico example demonstrates how effective use of the appropriate mix of these functions, when seamless in their application, can achieve significant results. In this case the outcome was in excess of $25 million in the first year with virtually zero cost.

Most CEOs are extremely competent. However, the smart ones recognize their limitations, especially those who avail themselves of coaches and other counselors. The foregoing example clearly shows the strength of managing growth organically. Basically, finding the inner-strengths, not only of the CEO, but the company as a whole, and then exploiting these in a proscribed manner is key to managing organic growth.

Furthermore, to derive the full benefit of this approach it should be managed independently from the day-to-day efforts of the CEO and left to professionals. They are the ones that can factually evaluate the marketplace opportunities and secure candid customer feedback. Likewise, their role is to assist in proving concept and identifying the alternative revenue streams that should exist for areas of expertise. As well, they have the necessary experience in striking winning strategic relationships with some of the largest corporations. And, they understand all aspects of promotion so as to effectively integrate the full envelope of activities to leverage an outcome that arises organically.

Hence, bringing in qualified support from the outside enhances a successful outcome while retaining an effective management team to take the company to its "next level."

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