

Enter the “chief growth officer”: searching for organic growth

David Meer

David Meer is a partner at Marakon Associates, one of the world's leading management consultancies (www.marakon.com). Based in New York, he heads Marakon's customer value group. With 20 years of experience in marketing research, advertising and consulting, David is a recognized expert in helping large companies achieve superior growth through deeper customer insight. He can be reached at dmeer@marakon.com

In recent months, organic growth has risen to the top of the corporate agenda. A Marakon survey in April 2004 found that organic growth is *the* key issue for 59 percent of the senior executives running US, European and Asian companies. For 57 percent, the priority has increased over the past year. Other studies highlight similar sentiments. For instance, a recent IBM survey of CEOs worldwide found revenue growth is the top agenda item for four of five[1].

Growth has become so important that an increasing number of companies – H.J. Heinz, Interpublic Group and Hain Celestial, among them – have carved out a new executive position: “Chief Growth Officer.” But will this new executive-level position be the growth elixir that companies are looking for?

Not likely, if that's all these companies do to jump-start growth. The reason: Strong, value-enhancing revenue increases require wholesale changes in behaviors, capabilities and culture, not just a new box on the organization chart.

In this article, we explain why organic growth is so important – and difficult. Then we detail three requirements for growing faster than competitors. Finally, we explore recent efforts to create a chief growth officer position, and whether they go far enough to establish the conditions for sustained growth.

The renewed emphasis on growth is a very positive trend, one that comes not a moment too soon. Our research into corporate performance over the long term indicates that organic growth is the most important driver of value in the capital markets. We recently examined a database of 107 “non-acquisitive” companies (those with no major acquisitions between 1996 and 2000)[2]. Top-quartile performance (as measured by total shareholder return or TSR) was almost always associated with above-average organic growth (93 percent) in the industry, while 92 percent of companies in the bottom quartile failed to grow faster than peers.

Organic growth is hard work

Organic growth is vital, but it is also very difficult to achieve. In many mature industries (such as commodities and consumer goods), compound annual growth rates for all competitors are in single digits. For example, major consumer products companies grew only 6 percent between 1996 and 2000, and the difference between top performers and the average was only four percentage points. That difference, however, had a significant impact on overall performance during the same five-year period as measured by TSRs: 26 percent for superior organic growers vs. 12 percent for the industry.

Shareholder return numbers aren't the only proof that organic growth is difficult to attain. In our 2004 survey, nearly half of the companies (45 percent) agreed strongly that they are not living up to their growth potential. Larger companies (revenues over \$500 million) have a

particularly tough time with organic growth; only 29 percent are highly confident of reaching their organic growth targets.

Why is organic growth so hard? Our experience reveals two main challenges: The first is understanding with sufficient precision what drives “customer value,” which we define as the difference between benefits as perceived by customers and the price paid. In our survey, most companies – regardless of their size or growth track record – said they needed to improve the information and insights used to determine what consumers/customers really want. Yet many of these companies spend millions of dollars studying consumer attitudes.

Further complicating matters, consumer/customer needs can change in ways that are hard to predict. For instance, look at the impact the Atkins diet has had on SlimFast sales in the USA. The product lost 15 percentage points of market share in 2003[3]. What's more, even if the drivers of customer value are known and do not fluctuate, it takes time for marketing initiatives such as advertising and new product introductions to alter entrenched habits and stimulate new purchasing behavior.

Understanding and influencing customer value is only one of the challenges faced by companies that aspire to growth leadership. Our research shows that organizational barriers to growth are more pervasive and deeply rooted than most corporate leaders realize. These barriers include incentive systems that undermine growth objectives, difficulty placing bets with uncertain payouts that inevitably lag costs, and organizational structures that unwittingly create blind spots for growth. The ability to identify and reduce these barriers separates growth leaders from their peers.

Growth companies really are different

Companies that consistently achieve organic growth faster than their competition differ in three key ways: They have a more disciplined approach to growth, better capabilities for driving growth and a more supportive culture.

A disciplined approach to growth

Leaders in organic growth don't let short-term pressures undermine initiatives that will pay off in the longer term. Certainly, it is not easy to resist analysts' expectations. A recent study by three business professors indicated that 80 percent of US chief financial officers would hold back on discretionary spending designed to fuel growth (advertising, R&D, etc.) if they were in danger of missing quarterly profit numbers[4].

However, companies in our survey that reported growing faster than their sector average over the past five years – companies we refer to as the “growth leaders” – placed an extraordinary priority on growth. Nearly eight in ten said that organic growth is at the top of senior management's agenda, compared to less than half of lagging companies (those growing at or below their sector average). And while short-term performance pressures force some growth leaders (35 percent) to under-invest in growth, their numbers are significantly less than the percentage of growth-lagging companies (47 percent).

How do the top growers prioritize these investments? They focus on areas crucial to organic growth such as research and development, customer insight and innovation skills training. For instance, our survey found that 73 percent of growth leaders increased R&D investment over the past two years, while only 55 percent of laggards did so. Growth leaders were more likely to invest in large-scale customer segmentation studies to zero in on their best growth opportunities. In addition, they were more likely than laggards to boost employee creative-thinking skills and shorten product development cycles.

By contrast, under-investment in growth activities results in a company's products and brands becoming less relevant to consumers and less differentiated from those of competitors. Gillette CEO Jim Kilts knows this well and has succeeded in increasing revenue significantly, in part by refusing to give quarterly guidance to analysts. Doing so, he feared, would force him to aggressively reduce costs and turn the growth faucet on and off. While he has cut costs, he has reinvested much of the savings into new product development,



“Understanding ‘customer value’ and overcoming organizational barriers remain the two biggest roadblocks to growth.”

international expansion and brand building. Sales were up nearly 10 percent last year, and Kilts has said he expects steady 3-5 percent organic growth in the future.

Better capabilities

From our research and experience, organic growth leaders have better organizational capabilities than growth laggards in three crucial areas:

1. developing a deeper, “three-dimensional” understanding of customers;
2. reacting quickly to changes in the marketplace, including new technologies, competitive strategies and consumer trends; and
3. attracting and retaining creative people.

To be sustainable, these three capabilities must be supported by a corporate culture conducive to growth (see next section).

By a “three-dimensional” understanding of customers, we mean insight that takes into account not only customer attitudes but also their behaviors and economics, with a particular focus on buying and usage patterns[5]. Take SABMiller plc, the \$8.3 billion international brewing company. For years, the company has been frustrated by its inability to challenge Anheuser-Busch for market leadership. Attempts to gain ground by developing attitudinal insights into their young male core consumer (“psychographics”) led to sexy advertising featuring mud-wrestling supermodels that attracted attention but didn’t drive sales. More recently, however, SABMiller observed a behavioral trend toward low-carb diets. They were able to capitalize on this trend, making it the centerpiece of its successful Miller Lite ad campaign in the USA. As a result, Miller Lite has gone from negative to high single-digit year-on-year growth.

A growth culture

In addition to having a more disciplined approach and better capabilities, growth leaders consistently create the internal cultural conditions necessary to foster organic growth. Their incentive systems explicitly reward growth by making growth goals the basis for individual compensation and advancement. More importantly, growth leaders do a better job of managing failure. A *Fortune* 500 industrial manufacturer famous for innovation celebrates new product failures by throwing a party and providing small financial incentives for the team, signaling its recognition that failure is a necessary consequence of growth. Leaders also use company growth goals to motivate the troops and rally the organization around common objectives.

Another key to a growth culture is the belief that success comes from doing many little things well rather than searching for the one big innovation that will transform the company. Though nobody questions the value of breakthrough innovation, searching for blockbusters can take focus away from the cultural and organizational barriers that impede consistent organic growth.

A leading European consumer goods company made a big investment in new talent to revitalize its marketing and new product development functions, only to see the new employees leave within two years out of frustration with management’s reluctance to invest in anything that didn’t pay out financially within a year. If incentive systems and a culture friendly to creativity and risk-taking are not in place to support long-term growth, the people required to make it happen will leave.

Chief growth officer: a viable addition?

In response to the growing importance and difficulty of growth, a number of companies, large and small, have created a new role: chief growth officer. Is this an idea whose time has come? Could it catch on the way the chief marketing officer position has in recent years?

An understandable first reaction might be mild amusement, if not downright ridicule. If the solution to stubborn corporate challenges were simply to create new job titles, our problems in information sharing, training and innovation would have disappeared with the advent of the chief knowledge officer, chief learning officer and chief imagination officer. That doesn't appear to have happened.

But before dismissing the chief growth officer idea as just more corporate hype, let's examine the trend in light of the aforementioned requirements for growth. In other words, how far has the CGO role gone in creating the right behaviors, skills and culture for steady organic growth?

The track record so far

Our review of companies that have appointed chief growth officers shows a mixed record. Colgate-Palmolive and others have experimented with the role but decided to abandon it. For some smaller companies, the CGO title seems little more than a repackaging of a traditional sales, marketing or new product development position.

Other companies are making a more concerted effort to spur growth in new ways. For example, the CGO at Heinz, the \$8.2 billion US-based food company, is "responsible for identifying new global growth initiatives and for prioritizing the company's best short-term and long-term product opportunities"[6]. According to Tod Nestor, Heinz's head of corporate planning, the CGO was conceived as a champion of best practices in marketing. The job's primary activity has been to focus resources on generating growth from the company's existing core businesses. In practice, this has meant building on opportunities for Heinz's already strong brands and spearheading efforts to turn around underperforming ones. The Heinz CGO uses interdisciplinary brand reviews (called "deep dives") as an important tool to assess strengths and weaknesses and identify opportunities.

In creating the CGO position in January 2003, Heinz recognized that the company was generating many ideas for growth; the problem was an inability to focus on the most promising ones.

Honeywell faced a similar obstacle when it named a chief growth officer in 1998 to oversee marketing, sales, technology and product development, and new business ventures. Then known as AlliedSignal, the company discovered that just 10 percent of its 1,500 technology development projects accounted for 80 percent of the potential "value opportunity." The company created the CGO role to focus on the 150 most promising growth initiatives and to weed out the least profitable ones[7].

To identify and pursue their best growth opportunities, companies need to cut across organizational and functional "silos." Silos impede growth by blocking the free flow of customer information and insight, best practices for innovation and new ideas themselves. Silos also can result in a proliferation of growth initiatives – too many ideas to fund and thus a dilution of resources available for the best ones.

Thus far, evidence of the effectiveness of CGOs is inconclusive. However, companies that have experimented with the role should be applauded, not ridiculed. They have recognized the need for a cross-functional approach to generate robust organic growth and that business as usual is no longer sufficient. Still, given the enormous barriers to organic growth, it is clear that the CGO role has been defined too narrowly. While a CGO can gain some quick wins by focusing on new product efforts and bringing a few promising ideas to market, that won't be nearly enough for the company to develop a repeatable model for increasing revenue faster than rivals.

“Success comes from doing many little things well, not from looking for the next big thing.”

We do not advocate solving stubborn organizational problems by creating an inspirational title and hoping something good will come of it. Repackaging a traditional head of sales, marketing or R&D job strikes us as a waste of time. Chief growth officers will have meaningful impact on their companies only if given a broad enough mandate to shift the behaviors, capabilities and culture for growth.

After giving CGOs that charter, the next step would be to measure their progress on it. How much has the topic of organic growth risen on top management's agenda? Is the company more likely to continue to fund growth initiatives in the face of analyst pressures? Are more investments being made to divine customer needs and wants? Is the company attracting and retaining more creative people? How much has the reward system changed to nurture invention, risk-taking and growth?

One final caution: No CGO can be solely responsible for creating the conditions for growth. This executive can serve as a focal point for efforts to increase revenues and be an important symbol of commitment. However, the ultimate responsibility for growth lies with everyone in the organization, from the CEO down. If everyone isn't focused on growth, it isn't likely to happen.

Keywords:

Business development,
Organizational structures,
Customers

Notes

1. The Global CEO Study 2004, conducted by IBM Business Consulting Services.
2. We defined "non-acquisitive" companies as those that did not announce any acquisitions to the press or in regulatory filings during the five-year period.
3. "Unilever shares slim on Atkins diet," Reuters, April 28, 2004.
4. Justin Lahart, "Corner office thinks short-term," *The Wall Street Journal*, April 14, 2004. The article cites a survey by professors Campbell Harvey and John Graham of Duke University's Fuqua School of Business and Shiva Rajgopal of the University of Washington.
5. For more on "three-dimensional" customer insight, see "Using a 3-D view of customers to drive profitable growth", by Ron Langford and Matt Hammerstein, Marakon Associates, March 2004.
6. From a Heinz press release dated January 14, 2003, "Heinz to make organizational changes in US businesses."
7. Tim Stevens, "Structure breeds success", *Industry Week*, November 2, 1998.