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Why Can't Good Companies Grow Faster?

By Kevin Kennedy

The pursuit of growth is the number one focus of investors, CEOs and Board members. A recent study by Blue Ridge Partners found CEOs favored growth two-to-one as a focus for attention. It's basic logic: to attract investment, companies need a sustainable growth story, be it for the top line, the bottom line or preferably both. If your firm is not growing – and not growing faster than other alternatives – investments in it will not sustain or grow.

Viewed more bluntly: if you are not growing, you are losing.

Growth matters, but all too often a chasm exists between a company's projected growth and its realized growth. When this occurs, the valuation of a firm is not maximized and, in the case of large M&A or large-scale organic investments, value can be destroyed, leaving many CEOs scrambling to understand what happened. Why aren't the growth initiatives they've invested in delivering results? ***Why can't good companies grow faster?***

To answer these questions, we must look at the investment and operational execution of the marketing and sales functions – the heart of value maximization and growth pursuits. Here, there are 15 common sales operations choice points ***(see below)*** that offer considerable leverage in aligning the investments in strategic intent with the intensely sought-after outcomes of growth. They are essentially 15 forks in the road that, if executed correctly, can lead to significant growth outcomes. While one could argue that there are many such choice points on a company's path, these 15 moments of operational decision are the ones with very high potential returns – but that routinely lead to underperformance of expectations and, ultimately, to disappointing growth.

15 Choice Points

There are 15 choice points in sales operations that routinely drive under-performance – and therefore sub-optimal value. Each of these choice points encompasses a highly complex array of variables. Here is a high-level look at each of the points and just a few of the conflicts inherent in the decisions that must be made there:

1 **Sales force M&A integration**
Should you integrate a new acquisition for efficiency or keep it standalone to minimize disruption to growth?

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2 **Channel expansion**
What's the right balance of direct vs. indirect channels? Reach vs. control? Direct vs. indirect economics? What's the right way to segment markets and customers?

3 **Customer alignment systems**
How does the company listen to customers and who is involved?

4 **Innovation**
How do you align innovation with customer needs? How do you measure whether your innovation is recognized by customers and building brand loyalty? Do you measure Net Promoter Score to monitor the impact of innovation or simply for operational improvement?

5 **Tuning the Go-To-Market model**
Is every organization in your partner base optimally serving the needs of the company and its customers? Are they meeting growth goals, sell-new goals, maintaining high renewal rates, and delivering on other value-based metrics?

6 **Investment in sales**
What's the right balance of investment between productivity and growth? Should you grow as you first improve productivity or take an operating margin hit by building sales capacity and hoping the business follows?

7 **Managing complexity and specialization**
Should you employ an overlay sales team? What's the right timing and approach? How do you manage the tensions that exist between overlay and mainstream sales teams?

8 **Pricing transitions**
Pricing changes trigger conflicts around optimizing product vs. service, adoption of new vs. protection of current generation, direct vs. indirect channel approach, the pricing model (one-time, recurring or subscription) and much more. Decisions at this choice point affect growth, the business model, customer satisfaction, and sales channel adoption.

9 **Sales leadership accountabilities**
As a company grows in size and complexity, sales leadership roles will evolve, demanding different skills over time to move a company in the right direction. When is the right time to shift those roles and the people in them?

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10 **Account control: balancing relationships, change and growth**
Sales managers want control of their accounts, but this reflexive reality creates a bias toward focusing on fewer customers more deeply and toward a resistance to change. How do you balance the pursuit of control with the need for change? How do you ensure the customer is not suffocated by an account team?

11 **Resource allocation and market alignment**
There is a natural bias to service customers that are already spending in the customer segments that are already known. How do you maintain these customers and grow share of wallet while growing new customers and customer segments? How do you allocate resources to balance the need for growth with the natural desire to focus on the familiar?

12 **Product and service offering growth**
New customer reach often starts with an initial product but sustained growth requires more users and more dollars per user. How do you balance the positioning of initial product sales with recurring upselling and service?

13 **Internal competition: local/global**
In large global companies, who decides what is best for each customer? Do local account teams have the autonomy to serve local client organizations? What decision rights exist locally vs. globally? How are local account manager compensation norms influenced? When do global offers conflict with the local status quo business and how is this managed?

14 **Margin vs. growth**
As companies become top in their space and growth slows, there is tension around protecting margin. Should you avoid lower-end business? Avoid channel partners? Avoid specific market segments or countries? How do you craft sales compensation to drive sellers to the right deals?

15 **Scaling and managing talent and systems**
As a young tech company begins to grow its sales force, its product portfolio, and its customer segments, managing the necessary growth in talent, skills and systems becomes increasingly complex. How does a sales leader transition from being a great seller to a great leader with an understanding of the process and systems required to purge non-performance and nurture the strength of a sales force? Each transition is a major choice point.

The problem at these points is this: In companies and in people, there is a reflexive bias in which the seemingly correct response is actually the opposite of what should be done. At these 15 high-stakes points, organizations usually follow their reflexive bias and consequently wind up with dissatisfying results. The problem is compounded by the fact that decisions at these points are typically held in the grip of a head of sales or his/her closest advisors who have had no formal training in the 15 choice points and how reflexive reactions at those points defeat intentions and goals.

To better understand reflexive bias, imagine you are driving a race car around a track at high speed. If you've never done this before, your reflexive response when approaching a curve will be to apply the brakes. However, this action can quickly result in loss of control and a spin-out. The correct approach to a curve requires not braking, but the ***right amount of acceleration.*** In short, a reflexive bias exists and the correct response – or in business terms, the correct "how" of execution – is to resist that bias and learn a new discipline that correctly manages the complexity of the circumstance.

It takes discipline, understanding and practice to overcome destructive reflexive biases and execute the appropriate "how". This is where many companies fall short.

Consider choice point #1, sales force M&A integration. In the mid-1990s, a router company spent billions of dollars to acquire a wide-area switching company. In the months after the deal closed, the acquired asset underachieved its sales forecast three times in a row, amounting to more than half a billion dollars of valuation decline. Why? Despite the parent company's declaration that new acquisitions should be held standalone, its head of sales acted reflexively to consolidate the sales forces. At a glance, the move – as all reflexive biases do – appeared to make sense: a single, integrated force seemed it would be more powerful and coordinated than separate operations. It wasn't.

There were several problems. For one, the parent company's sales leaders did not want sellers from the acquired team calling on the parent's customers for fear they would lose control of the relationship. This essentially forced acquired sellers to abandon some of their long-standing accounts and call on all-new accounts. Another problem arose when leaders began directing the acquired sales team away from its core product suite and toward more unfamiliar router products in the parent company's core, which had a shorter sales cycle and higher average selling price. Frustrated on all sides, more than half the acquired sales team left within six months.

Sales leaders blamed the exodus on the salespeople, declaring them not a good fit, but the true source of the problem can be traced to a reflexive bias toward total control. At the critical choice point, conventional wisdom – a reflexive force of resistance – defeated the strategic intent. It is this which ultimately drove deconstruction of the acquired asset.

No company, no matter how good, is immune to this very natural human reaction. The example here is a real one which occurred following Cisco's acquisition of Stratacom. Needless to say, Cisco has since put in place standards that counteract the bias that drove Stratacom performance off the rails. It has even gone one step further and created new biases in favor of growth.

Choice points exist because something is changing or needs to change. Again, there are countless such points on a company's path forward, but it is at 15 critical junctures that an organization must be vigilant about aligning at multiple levels and on multiple fronts in order to avoid the cultivation of value loss that is so common at these points. To steer toward growth, CEOs must seek alignment on four levels when approaching the 15 choice points:

- The first level of alignment is around a ***common view of intent***. For instance, if a company plans to transition from a direct sales force to a model that employs both a direct and indirect (channel) model, do the CEO, CFO, head of sales and the regional sales leads have a shared view of the what, who, why, and how to deal with conflict?

- The second level of alignment comes from ensuring that ***the stakeholders have*** an understanding of the best practices to guide a transition. Is it clear what good looks like? Is there a tangible model to replicate? Does the implementation plan comprehend a new and appropriate organizational structure that will bias success? Since complexity is being added, have the details been worked out ahead of time?

- At the third level of alignment, leaders m***ust address the people and situations of non-alignment.*** There always will be individuals, teams and/or departments that resist change or seek to implement change the way they want versus in a manner that aligns with best practices. If this non-alignment is anticipated and biases are put in place ahead of time, the duration of the resistance and the level of departure from desired behaviors will be minimized.

- The fourth level of alignment ensures that ***a governance system*** is in place that forecasts and measures outcomes and enables evaluation, iteration and immediate realignment. This can only be done in circumstances where the first three levels of alignment have been thoughtfully considered. This system must measure the performance of individuals or individual teams on a daily basis, allowing success to be held up as a model for others – and deviation from expectations to be nurtured for improvement.

Growth is painful. There is always a period of discomfort and lack of coordination that must be endured on the way to becoming a larger, stronger entity. Where companies run into trouble is when leaders do not understand the natural reflexive resistance that exists at their 15 critical choice points and put systems in place to counteract those adverse forces, enabling the

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organization to move through the growing pains into improved levels of performance. This is not intuitive; intuition would have us all putting on the brakes as we approach the curves. By contemplating best and failed practices at their 15 choice points, identifying the right "how" of execution to counteract misleading biases, and applying the right discipline and training, companies will see positive results from their growth initiatives – and avoid a potentially fatal spin-out.

About Kevin Kenedy
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Kevin has over 30 years of experience as an executive successfully leading prominent technology and telecommunications companies both public and private. Before joining Blue Ridge Partners he was President and CEO of Avaya, Inc. Previously he was CEO of JDS Uniphase Corporation, Senior Vice President of Cisco Systems, Chief Operating Officer of Openwave Systems and prior to that worked at AT&T Bell Laboratories. He has served on the boards of KLA -Tencor Corporation, Digital Realty, Freescale Semiconductor, Quantum, Rambus, and Polycom.

President Obama appointed Kevin to the President's National Security Telecommunications Advisory Committee in 2010. He was also a congressional fellow at the United States House of Representatives' Committee on Science, Space and Technology during 1987. From 1982 to 1984, he was an adjunct professor at Rutgers, his alma mater, where he published papers on computational methods, data networking, and issues of technology management.

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