THE COMPETITIVE EDGE

Volume 33, Number 2 **May 2019**

REMOVE BARRIERS TO GROWTH

Many businesses are challenged to improve and/or sustain business growth. It's not easy. Every organization eventually gets into a certain mode of doing things. Once that happens, seeing and removing barriers to growth becomes more difficult.

Here are four barriers to growth that can be difficult to remove:

1. Decisions made by the wrong people.
2. Staff viewed primarily as an expense.
3. Actions based on averages.
4. Strategies that ignore disruption threats.

Let's examine these barriers and how to remove them to improve growth.

ASSIGN DECISIONS TO THE RIGHT PEOPLE

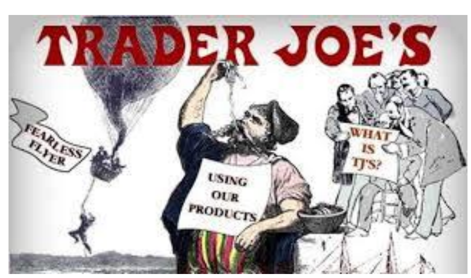
Businesses are driven by decisions. Good decisions help drive growth. Bad decisions limit growth. To improve growth, therefore, identify and change by whom and where in the organization key decisions should be made. Greater growth will follow.

7-Eleven Japan illustrates the idea. Until 1989, stocking decisions for 7-Eleven stores were made by middle managers. Sales per store showed no growth. Then, 7-Eleven Japan changed who made stocking decisions. Store managers were given the authority to do so. To help them, they received daily updates of sales data and trends. Result: sales per store increased over 30 percent within four years.

VIEW EMPLOYEES AS A RESOURCE, NOT AN EXPENSE

Some businesses view employees primarily as an expense, not a valuable resource.
The tendency is reinforced by traditional business accounting which provides no way to assign a value to employees. The expense view can limit growth. One oil company learned this the hard way. They laid off a key engineer, and to their surprise, the time to drill oil wells doubled, increasing the cost per well more than $500,000. This increase reduced the number of wells they could drill, thus, their growth.

Retail operations achieve greater growth and profitability when they view customer-facing employees as a resource. This is what Trader Joe's does, and it has helped the company achieve sales per square foot double that of a typical supermarket.
It has also helped drive excellent growth.



DIG DEEPER

Businesses miss opportunities to improve profits and growth when decisions are based on average measures. Physical-store retailers do this when they set staff budgets for stores based on an average percent of sales. This ignores the fact that the optimum staffing level is different for each store because of local conditions. Fine-tuning the staffing levels can increase revenues and profits per store over 5 percent.

Simple-minded pricing practices can limit growth. Before 2000, industrial-parts maker Parker Hannifin set prices using the same cost-plus formula for all products. Enter Donald Washkewicz as CEO in 2000. He divided the product portfolio into five categories based on uniqueness of the product lines, and used different pricing for each category. Net income rose from $130 million in 2002 to $673 million in 2006. The stock price rose from $40 in 2002 to $180 today.

Businesses miss growth opportunities when they use averages to segment markets. This practice enables competitors to spot a segment neglected by averaging and grab a lot of market share. Yeti took cooler share from Coleman this way. BAF took share from traditional fan makers.

Businesses miss opportunities if they view all customers the same way. More careful evaluation uncovers growth opportunities. Include 80-20 analysis in this. Identify the 20 percent of customers who provide 80 percent of the revenues and profits. Plastic injection molder Nypro used this approach. They identified the top 20 percent and fired the rest. Nypro's focus on its best customers improved. The company became the largest plastic injection molder in the U. S.

PREPARE FOR DISRUPTIONS

Efforts to grow a business can be demolished by disruption. The risk is highest for businesses with two characteristics: (1) they have been successful for a long time and (2) information technology (IT) strongly influences changes in their operations and offerings. The first characteristic causes management to minimize disruption threats. The second characteristic guarantees there <u>will</u> be significant disruptions.

Kodak, Blockbuster, Research in Motion (Blackberry), and Borders Bookstores illustrate the risk.

Spend time assessing future IT impacts and other disruptive forces. Identify possible threats to growth. You may also uncover significant new opportunities to exploit. Reed Hastings' Netflix did this, shifting from mail order to streaming video.
The 2007 shift has driven extraordinary growth.

"We've got the disruptive part down, now we just need to innovate."