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How *Not* to Grow

Successful growth strategies often turn on what companies decide not to do, and where not to go.

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Remember that essential business tool, the PalmPilot? In the 1990s, any businessperson who wanted to be "with it" had his or her Palm at the ready, to make appointments and look up phone numbers. As recently as five years ago Palm Inc. remained at the top of the game, a \$1.6 billion company boasting 36% of the smartphone market. It outpaced all of its competitors, most notably Research in Motion, maker of the BlackBerry.

Not only was Palm an unequivocal success, but it also seemed ideally positioned to further exploit a market that was expanding beyond the business community and into the wider sphere of consumer consciousness. The company ostensibly had all its bases covered: it pursued innovation in the interest of a "delightful" customer experience, according to its 10-Ks, rolled out new products continuously, developed a more sophisticated operating system that could support additional services and capabilities, and expanded internationally, setting up partnerships in China and Brazil ahead of most of its competitors.

Yet by 2010, following four years of declining sales that saw its market share fall below 10%, Palm put itself up for sale and agreed to be acquired for about \$1.2 billion by Hewlett-Packard. The final chapter on Palm was closed this past July, when HP dropped the brand name and focused on how to leverage Palm's underlying software.

In short, despite its first-mover advantage and attention to many of the elements of a growth strategy that experts say are key to continued expansion, Palm could not sustain its early success. History is littered with similar examples of companies that created new markets with breakthrough products but ultimately stumbled. Blockbuster, TiVo, and MySpace are just three of many recent examples. Even Palm's onetime nemesis Research in Motion, which rose as Palm fell, now finds the shoe on the other foot as Apple and Google battle for smartphone supremacy.

To be sure, most CFOs are well aware that driving growth is the most challenging aspect of their jobs. "Growing is harder than cost-cutting," notes Sanford Cockrell, national managing partner of Deloitte's U.S. CFO Program. That's because growth strategies "are subject to many external influences that are beyond a company's control, whereas cost-cutting is more a matter of exercising the will to get it done."

Experts vary on what they think the biggest missteps are, but there are certainly plenty to choose from. What often transforms a minor foible or missed opportunity into a genuine threat to the business, they say, is a sense of desperation — and the ensuing big bets on things that can't save them. (IBM CFO Mark Loughridge recently described to *CFO* that very phenomenon, and how IBM attempts to avoid it; see "[Think \[Again\]](#)," July/August.)

Fortunately for finance executives, they may be able to help their companies avoid some common mistakes by leveraging the very trait they are often criticized for: saying no.

Doing so, however, requires the ability to say no in a manner that is nuanced and informed, and is based on a detailed knowledge of the overall business, as opposed to financial analyses alone. "Pointing to a metric like NPV [net present value] is fine, but what's often missing is a more focused understanding of what is required" to achieve projected returns, says Paul Leinwand, Booz & Co. partner and author of *The Essential Advantage: How to Win with a Capabilities-Driven Strategy*.

When to say no versus when to say go? We talked to experts and finance executives who are currently embroiled in those very decisions regarding growth strategies. They pointed to four common missteps, and offered some navigation tips.

1) Problem: Going after the wrong market

Solution: Get focused by creating a "not-to-do" list.

"The need to grow is so intense right now that companies are chasing opportunities that, in retrospect, don't look like great ideas," says Leinwand. Indeed, in a recent Booz survey, only 43% of executives say they focus on what they are good at and find

markets in which they can capitalize on those capabilities. The balance are split between looking for what they perceive as great opportunities and then figuring out how to make them work, or pursuing a broad portfolio of options to spread the risk. Even when companies stay close to their core markets, they often fail to appreciate key differences. A carmaker might enter the truck market, for example, or a fresh-pizza company could decide that selling frozen pies makes sense. Such moves may seem low-risk, but Leinwand says his research indicates that companies typically fail to adequately assess their capability to succeed in such adjacent markets.

Companies might be better served, in fact, by assessing what promising avenues they will ignore. "People think *focus* means saying yes to the thing you've got to focus on. But that's not what it means at all. It means saying no to the hundred other good ideas that there are," said Apple CEO Steve Jobs in a 2008 *Fortune* magazine article. He noted that if the company had pursued a new PDA product (following the failure of Apple's Newton device in the mid-1990s) along the lines of the Palm, as it was pressured to, "we wouldn't have had the resources to do the iPod. We probably wouldn't have seen it coming."

That's a lesson that CFO Ann Ziegler has embraced at CDW, a business-technology vendor owned by private-equity firms Madison Dearborn Partners and Providence Equity Partners. "When you turn your attention to growth, one of the hardest things is to remain committed to what you've determined you're not going to do," she says. In CDW's case, international acquisition is currently on the "not-to-do" list, since the \$9 billion company feels it has plenty of opportunity to grow domestically. In fact, it puts the domestic market at more than \$250 billion.

Just saying no to global expansion is helpful, Ziegler says, given how many pitches for international acquisitions come over the transom from investment banks. Otherwise, "you burn through a lot of resources deciding why not to buy a company." With her not-to-do list (which also includes not venturing into office furniture), she can steer her finance staff away from distractions and toward maintaining boundaries around finance data; that helps to avoid ad hoc NPV analyses by other departments. Such lists, however, need to be revisited periodically. Ziegler says she and the board look at it at least once a year, and stand ready to jump on hot new trends that they hadn't previously planned for — for example, gearing up to sell tablet computers, a product that hadn't been on CDW's radar at the beginning of the year, in the middle of 2010.

On the flip side, it's important to keep adding to the list. Procter & Gamble did this recently when it sold off its Pringles snack-food line to Diamond Foods. Although the product line was doing quite well, P&G had decided to exit food-related business altogether, and selling off Pringles represented the final move away from that market. As CFO Jon Moeller noted in an April conference call, the transaction was intended to bring "even greater focus to our efforts and investments to grow our remaining portfolio."

2) Problem: Scaling good ideas too fast

Solution: Leave some opportunities for tomorrow.

Deciding where to steer is one challenge; deciding how hard to step on the gas is another. Every company dreams of having a product or service that attracts clamoring crowds, but perhaps those companies should be careful what they wish for.

"Scaling too quickly distracts management and dilutes the business model," says Paul Nunes, executive director of research for Accenture's Institute for High Performance. In his recent book, *Jumping the S-Curve*, co-authored with Accenture Interactive CEO Tim Breene, Nunes details many of the problems associated with going to market too fast, including quality-control and capacity problems and the dangers of being overreliant on that one magical product.

Case in point: Krispy Kreme. The company went from a quasi-exotic Southern shop to a national sensation in just five years by more than doubling the number of its retail outlets and distributing through grocery stores as well. Unfortunately, "the near ubiquity of the product hastened customer burnout," Nunes and Breene write. The company had little to offer beyond sugar highs, having "not adequately developed its drinks menu" to get a portion of the daily coffee-fix market that kept customers coming back again and again to rivals like Dunkin' Donuts and Starbucks.

Such growth may force a company to take on too much debt — or not enough, says Greg Dickinson, a director with Deloitte Services LP. "Working capital often gets left behind when a company thinks about expanding," he says. "A company may borrow enough to fund some of the growth, but not realize that running a larger business will tie up [disproportionately] more money in inventory" and other areas.

Growing too fast is a concern for Gilt Groupe finance chief Andrew Page. In the past 12 months, the invitation-only online luxury-goods retailer has launched six new businesses, including ones related to travel, home decor, and menswear, to complement its initial site, which sells women's designer goods at a discount. "The brand has given us permission to go into many different verticals, and within those verticals we could expand into different price points," says Page.

Much of the company's growth to date has stemmed from "entrepreneurial gut-feel" and intense testing of what works well on its current sites, Page says, rather than from NPV calculations or similar finance-driven disciplines.

That said, Page is setting limits. While there are other related markets, such as bridal, pets, and wellness, that are natural extensions for Gilt Groupe's existing customer base, "it's going to be a little while before we launch a new vertical," he says. "Each one [of our properties] is doing well on its own, and we want to make sure the Gilt Groupe customer feels integrated into all of our offerings" before pursuing more.

Scaling too fast can also be a symptom of wanting to be first to market. Nunes and Breene say their research shows that high performers are, in fact, rarely first to market, a point made often about Apple's recent success. Instead, high performers learn from competitors' mistakes and come out with a superior alternative.

Porsche, for example, was far from the first carmaker to roll out a high-end SUV, but its late-to-market Cayenne has won raves. Facebook was launched after MySpace (recently sold by News Corp. for \$35 million, a paltry 6% of what News Corp. paid for it in 2005), and expanded more cautiously, starting first with individual universities. "Facebook was not the first or the fastest, but its [slower growth] gave it a chance to make sure things were working right," says Breene. Facebook was valued at an implied \$86 billion at press time.

3) Problem: Waiting too long to invest in the future

Solution: Make innovation part of the company's culture — and cultivate the fine art of killing unpromising projects.

Too often, says Edward Hess, professor at the University of Virginia's Darden School of Business and author of *Smart Growth*, executives "say no when they should be saying maybe, and experimenting and learning." Then, when it's clear that demand for existing products and services has peaked, those same executives "start saying that the company needs some big new thing, and they try acquisitions or global expansion, putting all their eggs in a few baskets," which often worsens the odds of success. Coinstar, the \$1.4 billion company best known for its coin-counting machines, is trying to achieve continuous innovation within an internal venture-capital program. The company has defined its core business as "automated retail," a concept that unifies its two major divisions: the coin machines and the DVD-rental company Redbox.

One might argue that Coinstar could afford to ride the wave for a while, with Redbox's annual revenue growing 50% last year, but as the company has divested other lines of business (including an amusement vending unit and a money-transfer business), executives realized they needed new sources of business. "Looking out three to four years when Redbox slows down, we need new automated growth models that can pick up that mantle," says CFO J. Scott Di Valerio, who joined Coinstar in early 2010 after stints at Microsoft and Walt Disney.

With that in mind, the company launched a new-ventures division about two years ago, starting with a business-ideas contest. That led to it making a strategic investment last August in ecoATM, a start-up that makes in-store kiosks that allow consumers to recycle cell phones and other electronic devices and receive cash back in the bargain. Since then, the company has invested in a health-oriented kiosk business and seeded six internal start-ups.

Start-ups that get funded go through testing processes that are rigorous, but not expensive. For example, the company might create a manned cardboard mock-up and place it in a store, just to see if consumers seem interested. If that goes well, the company may then decide to fund the building of one or two automated kiosks for further testing. "We want to make small bets so we understand how the market will react before we invest in a full-scale rollout," says Di Valerio.

By applying a fixed budget that is spread across all new ventures, Di Valerio and others on the executive innovation council must inevitably give more nays than yeas to proposed ideas. "And a yes on one round doesn't guarantee future funding, because we may need that money to accelerate another project," Di Valerio adds. (Coinstar doesn't disclose its spending on the program, but in its first-quarter, the program's revenues were about \$365,000 and its net loss was \$2.7 million.)

But Di Valerio says that's to be expected. "We know that [the average] success rate is between 25% and 30%, so if 70% are going to fall by the wayside then you need to have plenty of possibilities at different stages in the pipeline." And you have to be ready to eject them from the pipeline at any time, in the name of growth. That can be hard for executives to do — but perhaps easier for the CFO.

4) Problem: Hiring superstars who don't fit the company culture

Solution: Maximize the employees you have before hiring more.

Growth strategy and talent management are intertwined, as Vology CFO Steve Torres has discovered. After Vology, a \$75 million, privately held networking-equipment reseller, doubled its revenues between 2006 and 2009, it was soon clear that some of the firm's initial hires would have to go. "It's unfortunate, but we've outgrown some talent," says Torres. Now, his

focus is on training and developing the existing workforce. "We feel that if we don't force development now, we're going to have tough conversations down the road, that their talents won't be relevant to the organization," he says.

In the frenzy of trying to develop products and marketing strategies, companies often forget about the importance of the people they have on board, and the culture that is growing up around them. "Companies bring in people who have been successful at previous organizations, but they haven't checked the fit with their own company," says Yaarit Silverstone, managing director in Accenture's talent and organization practice.

In terms of how to do it right, Silverstone points to one new CEO who walked into a global company with 40,000 employees in more than 40 countries that was languishing, and immediately took stock of the talent pool. As he developed new strategies, he rotated existing employees into new roles that would further the company's objectives but also give them room to grow personally. Then, and only then, "he looked for where the gaps were," and hired from the outside, says Silverstone. Eighteen months into the changes, the company has gone from running at a loss to profitability, with revitalized morale.

Another challenge with hiring for growth is finding the balance between specialists and generalists. "I would much rather hire a good all-around player than a specialist, since growing companies need people who can play different roles," says Troy Henikoff, an entrepreneur and investor who has started many companies, including SurePayroll and start-up incubator Excelebrate Labs.

The worst mistake, though, is "hiring people who aren't a fit, then trying to work with them for too long because you feel bad," says Henikoff. "I've been doing this for 25 years, and have let about 25 people go. I have never once felt like I jumped the gun."
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