



ENABLING ORGANIC GROWTH

ATTAINING CONTINUOUS PROFITABLE GROWTH



Continuous profitable growth is the Holy Grail of the business world, and many organizations are willing to go to great lengths in its pursuit. What differentiates the organizations that are successful in their quest, especially in today's fast-changing and global economy? And for those that do attain continuous profitable growth, how can they keep it? Organic growth provides a means to achieve this state.

Continuous organic growth requires operational excellence and a long-term orientation. Organizations looking for a more rapid expansion leverage mergers and acquisitions. But even though merger and acquisition activities dominate the headlines, over the long haul, every organization needs to be able to grow its acquired or newly developed businesses organically. That acquired organization is now part of the parent company, and the results all roll up to the top level. Even conglomerates that buy organizations and let them run autonomously will force each acquired organization to grow organically. After all, the profit and loss statements for the individual divisions impact the bottom line of the parent company.

This *SAP Executive Insight* explores organic growth and addresses some of the most common challenges in the quest to achieve it.

- What are the levers of organic growth in growing the top line?
- Are there short-term tactics I can use without depending on time-consuming and risky new products?
- Is there a way to reduce the time to develop and launch new products?
- What role can my existing customers play in growth?
- How do we pay for growth initiatives while still maintaining profitability?

EXECUTIVE AGENDA

AT A GLANCE

Fundamentals of Organic Growth

After many years of setting conservative operational goals, growth is back on the agenda for organizations worldwide. Organic growth represents an opportunity to leverage a company's core competencies to expand both revenue and profits. In contrast, inorganic growth is driven by acquisitions, mergers, or takeovers to expand a company's product offerings or access new markets. Regardless of the method, the primary objective of all types of growth is to increase top-line revenue while maintaining profitability. A company in pursuit of organic growth typically follows one of four paths: selling more of your existing portfolio to existing customers (market penetration), selling your existing portfolio to new customers (market development), developing new products and services to sell to existing customers (product development), or developing new products and services to sell to new customers (diversification).

Factors for Organic Growth

The process of growing revenue is a complicated process that can be reduced to a simple mathematical equation:

$$\text{Revenue} = \text{Number of Opportunities} \times \text{Average Close Rate} \times \text{Average Transaction Size}$$

The equation lists the factors that drive revenue. The combined value of these factors significantly increases the revenue your organization generates. Organic growth focuses on increasing the value of each factor. The way you maximize the value of the factors is to optimize the following drivers within your organization:

- **Sales effectiveness:** The skill of your sales team influences all three factors. The more skilled your sales force, the greater the number of sales opportunities, the higher their close rate, and the greater their ability to up-sell and cross-sell to increase transaction size.
- **Customer retention:** Once you've acquired customers, how will you keep them and get them to buy more?
- **Product innovation:** How will you innovate your portfolio to propagate growth?
- **Operational Excellence:** Maintaining growth initiatives costs money and requires ongoing investments in people, processes, and technology. The bottom line for achieving organic growth is to achieve operational excellence. Operational excellence results in the delivery of products and services that meet customers' price, quality, and delivery expectations using the most efficient business processes to maximize profit.

SALES EFFECTIVENESS

SKILLS THAT MAKE THE DIFFERENCE

Powell Electronics

Industry: Wholesale Distribution

Summary

A privately owned distributor of electronics components and value-added services, Powell Electronics Inc. operates 10 locations in North America and has key partnerships in Europe, the Middle East, South America, and China. Faced with rapid growth, the company implemented SAP® software and recently underwent an upgrade to the SAP ERP application to help it more effectively manage its inventory. Since then, the company has expanded its use of the software to support an array of processes as it continues to grow.

Results with SAP® Software

- Electronic invoicing (used by more than 90% of vendors)
- 35% increase in sales revenues, with no increase in IT support staff
- Smoother sales processes, internally and externally

The ultimate goal of investing in the development of the sales organization is to successfully implement the organization's growth strategy. This investment is intended to have a significant positive impact on the organization's revenue. Yet it is often extremely difficult to visualize the potential return on investment in these areas. Managers intuitively know there is some benefit in training and development, but they lack a model to understand the magnitude of that benefit.

If you look at average sales organizations, you'll find a broad spectrum of performance. The top 10% represent salespeople that you definitely do not want to lose, the bottom 10% represent those that need to be put on an improvement plan or released, and the vast majority are somewhere in between. To maximize the effectiveness of your sales organization, you must accomplish the following:

- **Focus on improving the performance of the middle performers.** If you estimate that 50% to 70% of total revenue is generated by the middle performers that make up 80% of the sales force, a 5% increase in average revenue per year for the middle performers will more than double a corresponding increase for the high performers.
- **Carefully deconstruct and understand the processes, tactics, and disciplines of top performers.** Your top salespeople have undoubtedly mastered how to sell your products successfully. Areas in which high performers consistently excel include opportunity qualification, customer

follow-up, negotiation, competitive positioning, and effective marshalling of internal resources. Pinpoint these differentiators. Study your top performers, and inventory the tactics and methods they use.

- **Close the gap between the middle performers and top performers.** Now that you know which tactics and methods make top performers the best, you need to determine what skills the middle performers lack by comparison and work toward bridging that gap. Do this through a formal certification program.
- **Require sales training certification to ensure that skills and processes are truly ingrained.** The best organizations require that strategies and methods taught in the classroom are executed and monitored in the real world before moving salespeople to the next level or to more complex sales assignments. Without a certification process, you run the risk of salespeople attending classes only to get credit for attendance without mastering the information and skills.

Once you develop the mechanisms (processes, change management programs, and certification) to close the gap between middle performers and top performers, your organization can then push through new products, pricing increases, and cross-sell and up-sell programs – all with the knowledge that you have a sales force that can effectively execute on those programs.

CUSTOMER RETENTION

TURNING CUSTOMERS INTO PROMOTERS

The enemy of organic growth is customer churn. Losing customers not only hurts the top line; acquiring new customers is many times more expensive than keeping existing ones. Retaining customers is, therefore, one of the most cost-effective means to sustain organic growth, which you can address by following some tried and proven principles:

- **Identify loyalty drivers specific to your industry and business.** Although this step seems obvious, it is actually less intuitive than conventional loyalty measurement suggests. An effective loyalty-based satisfaction measurement approach must acknowledge the great diversity of potential loyalty drivers. For example, you can drive customer loyalty by standard service dimensions like reliability, responsiveness, and empathy. You can also influence loyalty by focusing on tangibles such as physical facilities, equipment, and the professional appearance of customer-facing personnel. How do you identify loyalty drivers? Ask your customers.
- **Institute a customer survey process that is customizable and integrated.** Relying on generic value markers can lead to misperceptions. You should determine loyalty factors specific to your customers. For example, customers and employees in high-tech industries have different priorities and needs compared to those in a service industry. Considering how many people and processes impact the customer experience (customer facing as well as operations), it's imperative that the delivery of customer surveys as well as the communication and tracking of survey results

are integrated throughout the organization. To have a customer satisfaction score is not enough; it must be linked to and integrated with employee satisfaction, service levels, and even profitability.

- **Ensure consistent, on-time delivery of products and services.** No matter how professional your customer service personnel may be, if the shipment is late, the customer will be unhappy. Make sure that your back-office operations are running smoothly. Start at your customer's delivery dock and work backward. Factor in the internal and third-party groups involved, such as transportation, import and export, quality, packaging, production and manufacturing, procurement, and order fulfillment. Look further upstream to see how R & D, engineering, product development, testing, and marketing impact the customer's experience, to ensure you are meeting expectations.

All of your customer retention efforts should work toward hearing a "Yes" in response to one very important question: "Would you be a referral?" If your organization is not focused on ensuring that your customers will give you a positive referral, you're limiting your organization's growth potential. The loyalty drivers you identify, the surveys you conduct, and the operational efficiencies you carry out should be focused on those items that make your customers willing to refer you to others. This type of customer retention program is a driver to acquire new customers, which feeds into the equation for driving revenue and growth.

Freescal Semiconductor

Industry: High Tech

Summary

Austin, Texas-based Freescal Semiconductor Inc. is a global leader in the design and manufacture of embedded semiconductors for the automotive, consumer, industrial, networking, and wireless markets. When Freescal Semiconductor Inc. separated from Motorola in 2004, it faced an interesting challenge for implementing a robust human capital management system. Under Motorola, it had outsourced aspects of HR – but still struggled with inflexible legacy systems, master-data redundancies, complex reporting, and high support cost.

Results with SAP® Software

- Solid, scalable platform for future growth and functional enhancements
- HR cost per employee per year for transactional functions: US\$180 (average benchmark: \$406)
- Automated HR processes that free employees to focus on more expertise-based activities

PRODUCT INNOVATION

FOCUS ON THE PROCESS

Dow Corning

Industry: Chemicals

Summary

Specializing in silicone-based materials, Dow Corning Corporation offers some 7,000 chemicals products and services to 25,000 global customers. To link manufacturing operations with its SAP® ERP application, the company chose the SAP Manufacturing Integration and Intelligence application. The software connects process, business, and quality data throughout Dow Corning's global supply chain.

Results with SAP® Software

- Customer inquiry response time about 70% faster (from 5 to 7 days down to less than 1 hour)
- Application deployment time 75% faster (compressed 3-year implementation into 9 months)
- Increased customer satisfaction and sales via improved response times, product quality, and delivery performance

Profitable growth and competitive advantage require innovation – the ability to develop genuinely new products and bring them to market with maximum speed and cost-effectiveness. But growth through innovation is difficult to sustain. Products become commoditized quickly. In the computer industry, PC offerings are now replaced by vendors every two to four months. And the ever-more-global business environment has produced a stunning proliferation of copycats.

The answer is not to de-emphasize innovation but, rather, to focus the process of innovation on developing better products more quickly. A formal new-product development and introduction (NPDI) process helps organizations develop more of the right products at a faster rate and deliver them more quickly and more efficiently via the right channels to the right customers. Such a process helps organizations grow faster by structuring, focusing, and supporting innovation.

While the NPDI process is complex and specific to an individual organization, you can improve NPDI by recognizing five process truths and understanding how technology can help make the process more successful:

- **Treat NPDI as a closed-loop, end-to-end business process.** Because NPDI spans the enterprise, it is best supported by processes and tools that transcend functional domains and promote collaboration across the extended enterprise.
- **Manage NPDI on three distinct levels.** These levels include innovation management (portfolio strategy and

management capabilities) – to help make the right decisions and prioritize the use of resources; stage-gate project management – referring to project, cost, and resource management capabilities; and functional execution – a range of synchronized capabilities to help integrate initial idea capture, product development, strategic sourcing, supply chain planning, production ramp-up, and market launch.

- **Establish performance metrics and process visibility.** To measure performance, understand progress, and ensure accountability and feedback, your organization needs accurate metrics that align with business strategy. However, metrics require extensive visibility into overall product portfolio and pipeline, program resources, project status, key performance indicators, workflow requests, exception alerts, and other key information.
- **Develop an NPDI road map.** In most organizations, the best recourse is to move one step at a time toward a goal that aligns well with the overall business strategy. The initial steps involve taking the time to understand and improve current processes and systems and then working to capture easy wins.
- **Allocate enterprise-level IT support.** In most organizations, dozens if not hundreds of disconnected applications support the NPDI process. NPDI requires integrated, enterprise-wide solutions to ensure adequate control over the complete process.

OPERATIONAL EXCELLENCE

SAVINGS TO INVEST IN GROWTH

Fueling growth requires operational excellence. Operational excellence simply means your organization's operations are running efficiently, predictably, and consistently so you can manufacture and deliver high-quality products to customers on time. By ensuring that operations are running smoothly, you lower the cost of producing and selling products, thus generating savings that can be reinvested into growth initiatives. Operational excellence can also apply to sales and marketing processes. You can drive top-line growth by ensuring administrative tasks and back-office processes do not go awry and distract sales and marketing people from revenue-generating activities.

Operational excellence is critical to growth, because extending product lines, expanding into new markets, and investing in sales and marketing require significant, long-term funding. Common ways to generate cost savings as well as increase revenue include:

- **Consolidating applications across the business.** Consolidating applications increases the ability to standardize processes, which, in turn, boosts productivity, speeds time to market, optimizes capital and assets, and enables global expansion.
- **Integrating processes to realize operational gains.** A study by SAP research¹ concluded that an enterprise using integrated processes achieves greater economies of scale than vertically oriented organizations and produces larger gains from process improvements leveraged across the organization. Study participants and sponsors reported that integrated processes led to a 25% to 50% improvement in productivity, margins, and employee competencies and a reduction in defects. These improvements covered the areas of customer loyalty, revenue, and operating margins.
- **Building a technology infrastructure for global expansion.** Going after

new markets entails more than just setting up a sales office. You need to get back-office facilities running first, such as IT infrastructure, production plants, distribution centers, suppliers, transportation, and shared services. The sooner you can set up an operation, the longer horizon that operation has to succeed.

Enabling Growth with SAP

The value engineering (VE) team at SAP demonstrates how to leverage SAP® software to drive the success of innovation-based growth objectives. The VE team provides support throughout the value life cycle, from developing the business case to sharing knowledge on how to maximize the value of your investment in SAP software. Each year the team completes more than 1,500 business cases to help ensure that IT projects are not only on time and within budget but are also “on value.” Under the leadership of Chakib Bouhdary, the VE team consists of more than 175 professionals providing in-depth industry and business process expertise in strategy, IT planning, global deployments, and benchmarking. For more information, contact value.engineering@sap.com.

Further Reading

To learn more, please visit www.sap.com/usa or contact your SAP representative about the following:

- *SAP Executive Insight Series on Growth*
- *SAP Insight: The Case for Integrated Processes, 2006*
- *Lennox Business Transformation Study – Manufacturing*
- *Madix Business Transformation Study – Manufacturing*
- *Nibco Business Transformation Study – Manufacturing*
- *Propex Business Transformation Study – Mill products*
- *Under Armour Business Transformation Study – Consumer products*
- *Wolverine Business Transformation Study – Consumer products*

1. *SAP Insight: The Case for Integrated Processes, 2006.*

50 089 897 (08/06)

©2008 by SAP AG.

All rights reserved. SAP, R/3, xApps, xApp, SAP NetWeaver, Duet, PartnerEdge, ByDesign, SAP Business ByDesign, and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP AG in Germany and in several other countries all over the world. All other product and service names mentioned are the trademarks of their respective companies. Data contained in this document serves informational purposes only. National product specifications may vary.

These materials are subject to change without notice. These materials are provided by SAP AG and its affiliated companies ("SAP Group") for informational purposes only, without representation or warranty of any kind, and SAP Group shall not be liable for errors or omissions with respect to the materials. The only warranties for SAP Group products and services are those that are set forth in the express warranty statements accompanying such products and services, if any. Nothing herein should be construed as constituting an additional warranty.

www.sap.com/contactsap

THE BEST-RUN BUSINESSES RUN SAP™

