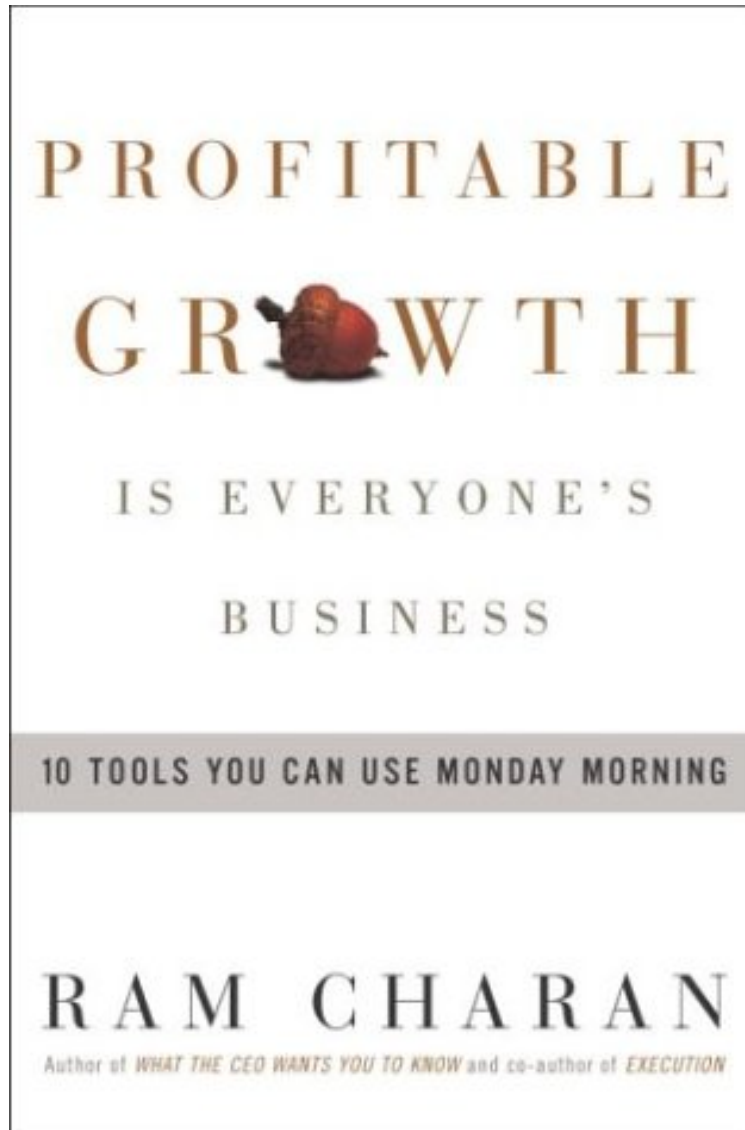


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## Profitable Growth Is Everyone's Business: 10 Tools You Can Use Monday Morning

Ram Charan

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Charan. The wealth of experience and the clarity he brings to complex business conditions is incredible. I became aware of his writings through linked-in and the Harvard user groups. After reading this book, I purchased all his other books, I set aside 1 hour every morning before work to "study" his thoughts and views. I have applied what I have learned and my career has changed. I am now running our Asia business operations. Thank you Dr. Charan for your wisdom and your magnificent mind. -Shawn11 of 14 people found the following review helpful. His Books Are The Next Best Thing....By Thomas M. Loarie I have had the honor of knowing Ram Charan since 1981. He was, at that time, a lecturer for our in-house corporate (American Hospital Supply Corporation) training program for company Presidents at Northwestern University. Once exposed to this great business mind and teacher, I hired him to work with me and my team in my Division, and subsequently with a medical technology, development stage company (KeraVision, Inc.) I led from idea conception to commercialization. There is no better way to access his wisdom than through direct interaction and involvement in your business. He will take your mind, expand it, then teach you how to apply all that he has shared. He does not tell you what to do but, rather, provides the structure within which you can determine what needs to be done. His work with teams of people (executive teams, boards, boards executive teams) is pure genius. He extracts every idea, and every possibility from the group, then provides the means to look at the information and gain new insights. One thing that is not discussed about Ram in reviews of his work is his humanity. He is truly a believer in people. He pushes hard for the elimination of non-productive and destructive people (and what this book is all about, projects) because he knows the importance of the organizational health. He knows that healthy organizations retain excellent people, grow excellent people, and produce quality results. Unfortunately, not everyone can work directly with Ram, so this book and others that he has authored are the next best thing. This book is no exception as it provides a basis for focus, investment of time and capital, and growth. And, if you read carefully, it is laced with his humanity.

The coauthor of the international bestseller *Execution* has created the how-to guide for solving today's toughest business challenge: creating profitable growth that is organic, differentiated, and sustainable. For many, growth is about "home runs" -- the big bold idea, the next new thing, the product that will revolutionize the marketplace. While obviously attractive and lucrative, home runs don't happen every day and frequently come in cycles. Products like Kevlar, Teflon, and the Dell business model for selling personal computers may be once-in-a-decade phenomena. A surer and more consistent path to profitable revenue growth is through "singles and doubles" -- small day-to-day wins and adaptation to changes in the marketplace that build the foundation for substantially increasing revenues. The impact of singles and doubles can be huge. They are not only the basis for sustained revenue growth but, in fact, the foundation for home runs. Singles and doubles provide the discipline of execution, an absolute necessity for successfully bringing a breakthrough technology to market or implementing a new business model. Inherent in this way of thinking is the revolutionary idea that growth is everyone's business -- not solely the concern of the sales force or top management. Just as everyone participates in cost reduction, so must everyone be engaged in the growth agenda of the business. Every contact of each employee with a customer is an opportunity for revenue growth. That includes everyone from the people working in a company's call center handling customer inquiries and complaints to the CEO. In this trailblazing book, Ram Charan provides the building blocks and tools that can put a business on the path to sustained, profitable growth. For more than twenty-five years, Ram Charan has been working day in and day out with companies around the world. The ideas he has developed for solving the profitable revenue growth dilemma facing many businesses are based on personally seeing what works in real time. These are ideas that have been tested across industries and that deliver results, and they can be put to use starting Monday morning. From the Hardcover edition.

From the Inside Flap The coauthor of the international bestseller *Execution* has created the how-to guide for solving today's toughest business challenge: creating profitable growth that is organic, differentiated, and sustainable. For many, growth is about "home runs" -- the big bold idea, the next new thing, the product that will revolutionize the marketplace. While obviously attractive and lucrative, home runs don't happen every day and frequently come in cycles. Products like Kevlar, Teflon, and the Dell business model for selling personal computers may be once-in-a-decade phenomena. A surer and more consistent path to profitable revenue growth is through "singles and doubles" -- small day-to-day wins and adaptation to changes in the marketplace that build the foundation for substantially increasing revenues. The impact of singles and doubles can be huge. They are not only the basis for sustained revenue growth but, in fact, the foundation for home runs. Singles and doubles provide the discipline of execution, an absolute necessity for successfully bringing a breakthrough technology to market or implementing a new business model. Inherent in this way of thinking is the revolutionary idea that growth is everyone's business -- not solely the concern of the sales force or top management. Just as everyone participates in cost reduction, so must everyone be engaged in the growth agenda of the business. Every contact of each employee with a customer is an opportunity for revenue growth. That includes everyone from the people working in a company's call center handling customer inquiries and complaints to the CEO. In this trailblazing book, Ram Charan provides the building blocks and tools that can put a

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About the Author RAM CHARAN is the coauthor of *Execution: The Discipline of Getting Things Done*, the international bestseller that has changed the way managers run their companies. He is a highly sought-after advisor to CEOs and senior executives in companies ranging from start-ups to the Fortune 500. Dr. Charan earned his doctorate at Harvard Business School and has been on the faculty of that school as well as the Kellogg School of Management at Northwestern University. His articles have been published in *Fortune* magazine and *Harvard Business Review*, and his other books include *What the CEO Wants You to Know*, *Boards At Work*, and *The Leadership Pipeline*.

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### The Challenge of Profitable Revenue Growth

GROWTH IS the elusive goal at the top of everyone's agenda. There are three reasons why it's proving difficult to achieve. First, the balance has gone too far in the direction of cost-cutting at the expense of revenue growth. More thought and time have been given to tools like Six Sigma and actions like restructuring, achieving size through acquisition, and looking for opportunities to consolidate in an industry undergoing upheaval than to revenue growth. Second, when most managers do think about growth, it is in terms of home runs--the disruptive technology, the new revolutionary business model, the mega-merger--instead of the singles and doubles that, when executed at a steady pace, cumulatively can increase revenues substantially. Third, improving productivity and increasing revenues are seen as two separate issues, when they are, in fact, inseparable for long-term success. If managers concentrate only on raising productivity, they are doing only half their job. Improving productivity means that a business finds a better way to do something that results in the enhancement of its competitive position and/or the creation of new opportunity, while at the same time producing funding that can fuel its growth. In contrast, sporadic, deep cost-cutting--downsizing, closing plants, across-the-board budget cuts--are one-shot reductions (often without attention to the consequences for revenue growth) that do not result in doing things in a better way. Cost-reduction campaigns are largely a result of the lack of discipline of productivity improvement on a long-term consistent basis. When employees experience these cost-reduction campaigns every year and sometimes two or three times a year and revenues are flat or declining, they know they are in a business going nowhere. It becomes a personal-survival issue and saps their emotional energy.

That's just how Bill Carter felt. He could already feel the acid churning in his stomach. The reason was simple: It was about to happen again. Until nine months before, Carter, a store manager for the Furniture World chain, thought he had the best job in the world. As the person in charge of the "place to go for all your home furniture needs," he had for twelve years supervised what he thought of as "his store" in suburban Miami. He had turned in steadily increasing sales and earnings numbers year after year. He was always in the top 10 percent every time the 217-store retailer ranked the performance of each of its store managers. But what Carter really loved was the joy he experienced in growing the business. Every time friends would ask why he had turned down opportunities for advancement from more important retail chains, he cited the thrill of being able to make his decisions in a growth business. For example, he was given the freedom and had the discretion to source merchandise that matched the needs of the unique demographics of his market, well-to-do Hispanics. This discretion drove his creative juices to ever-higher levels as he strove to grow revenues and be the largest and best retailer in the community. Not only were revenues increasing, but Carter was experiencing personal growth as well. Carter couldn't see himself ever leaving Furniture World. And then everything changed. Furniture World was acquired at an exorbitant price by a Fortune 100 conglomerate. For a few weeks, it seemed that nothing major was going to change--then the real overhaul began. To help pay for the acquisition, the new parent company announced a mandatory, across-the-board, 8 percent head-count reduction. It meant that Carter had to reduce his staff by ten people. He knew this would not only affect his sales growth, there would be fewer employees to take care of customers, but that it was the first shot in destroying the esprit de corps of his store. Then the other shoe dropped. Corporate announced that all decisions about buying merchandise, advertising, and the mix and quantity of stock units and when they would be delivered to individual stores would be centralized. Carter sensed that the company was now focused on cost reductions instead of searching for profitable revenue growth. In his gut, he knew that his sales growth engine would start running out of gas. He was right. Not too long thereafter, both sales growth and buzz about the store began to decline. More customers walked out without buying anything. The number of people coming in to the store also went downhill. Customers began to complain that the store's selection had been cut and skewed the wrong way, not meeting the tastes of the store's Hispanic customer base. The problem really hit home when he saw the couple who were right out of central casting. They were in their early forties, and even though they were in casual clothes--she in designer jeans, he in a wrinkled nylon running suit--he could tell they were well-off. The couple was looking seriously at the highest-end outdoor furniture the store sold. They were searching around for sales help, when Carter spotted them. They weren't having any luck, and Carter knew why. The decision to cut staff was coming home to roost as he saw the couple walk out of the store. Does this experience sound familiar even if you have never been through an acquisition or merger? Bill Carter's experience at Furniture World shows both the business and personal consequences of being part of a business that is growing or one that is not. It also shows that we need to think

differently when it comes to finding ways to grow. Profitable, sustained revenue growth results from a mind-set that differs significantly from one required for either cost-cutting or productivity improvement. The latter are deterministic and internally driven, while growth requires creativity and the ability to look at a business from the outside in. Growth is a creative act, but it is also a social process that is disciplined and links together the moving parts of an organization to achieve a consistent increase in revenues. It has at its core both building blocks and tools that you can start using this Monday morning. Here's an overview.

### THE BUILDING BLOCKS OF PROFITABLE REVENUE GROWTH\* [\*

The building blocks described here and the tools described in the next section work together to create a growth agenda. For simplicity purposes, I call them all tools in the subtitle 10 Tools You Can Use Monday Morning\*]1. Revenue growth is everyone's business, so make it part of everyone's daily work routine. Every employee wants to be part of a company's growth agenda, but most don't know how. Managers need to provide them with both information and tools, starting with making revenue growth an inherent part of daily conversations, meetings, and presentations. Just as everyone participates in cost reduction, so must everyone be engaged in the growth agenda of the business. Every contact of every employee with a customer is an opportunity for revenue growth: The people answering the phon in the call-center can provide valuable information on unmet customer needs. The appliance repair person can discover patterns and timing of demand for replacement of appliances. Salespeople can extract market intelligence and ensure that it is communicated to the product development, operations, and service departments. Logistics people, through on-time deliveries, can help customers avoid stock-outs, thus enhancing customer satisfaction, an important foundation of future revenue growth. The fruits of these efforts for revenue growth energize people and enhance their self-confidence. Growth taps into all their latent energy to generate ideas that can carry the organization to higher levels of growth. Growth truly is everyone's business, not something that is solely the concern of management.

### 2. Hit many singles and doubles, not just home runs.

While home runs provide the opportunity for a quantum increase in the growth trajectory, they are unpredictable and don't happen all the time. Singles and doubles, however, can happen every day of the year. They result from a determined, day-in and day-out improvement in the activities and social processes of a company; they form the drivers of profitable revenue growth. Increasing revenues through singles and doubles build a growth mind-set throughout the business, so that when the opportunity for a home run does come along, you'll be better prepared to take advantage of it. For example, Dell's efforts, beginning in 1993, to improve inventory turns to use less cash and reduce price and product obsolescence began as a single. The company's initial goal was to increase inventory turns, which were averaging from six a year to ten. Over the last ten years, Dell has continuously improved the totality of its supply chain so that its inventory turns over one hundred time a year, or once less than every four days. The result is higher revenue growth and what has become a lethal competitive weapon against all PC manufacturers. In addition, this supply chain enables Dell to accelerate revenue growth by entering into new market opportunities like printers, servers, and storage.

### 3. Seek good growth and avoid bad growth.

A framework for distinguishing good from bad growth is a crucial element in generating revenue growth. Good growth not only increases revenues but improves profits, is sustainable over time, and does not use unacceptable levels of capital. It is also primarily organic (internally generated) and based on differentiated products and services that fill new or unmet needs, creating value for customers. The ability to generate internal growth separates leaders who build their businesses on a solid foundation of long-term profitable growth from those who, through acquisitions and financial engineering, increase revenues like crazy but who create that growth on shaky footings that ultimately crumble. Many acquisitions provide a one-shot improvement, as duplicative costs are removed from the combined companies. But few, if any, demonstrate any significant improvement in the rate of growth.

### 4. Dispel the myths that inhibit both people and organizations from growing.

An important part of any leader's role is to realistically confront excuses such as: "We are in a no-growth industry, and no one is growing"; "Customers are buying only on price"; or "The distributors are the ones in direct contact with retailers, and there's not much I can do." Every leader needs a growth agenda and the ability to communicate an urgency about the need to increase revenues and build the business so that action-oriented people within the organization find out what needs to be done today.

### THE TOOLS OF PROFITABLE REVENUE GROWTH

#### 1. Turn the idea of productivity on its head by increasing revenue productivity.

The old saw says "we have to do more with less." The problem, though, is that the focus is usually on the "less" and the "more" rarely happens. Revenue productivity is a tool for getting that elusive "more" by actively and creatively searching for ideas for revenue growth without using a disproportionate amount of resources. It shows how to invest your current level of resources in a way that leads to increased sales by analyzing everything a business does, from the seemingly mundane to the vitally important.

#### 2. Develop and implement a growth budget.

All companies have a budget. It is, however, astonishing how little detail about revenue and sources of revenue growth you can find there. Almost of the lines in the budget are cost-related. Few, if any, identify resources explicitly earmarked for growth. The growth budget provides a foundation that will allow a company to increase revenues instead of just talking about it. It includes all critical actions over the short, medium, and long terms that require resources to achieve revenue growth goals. And there is follow-through that includes rewards for success and penalties for poor performance.

#### 3. Beef up upstream marketing.

One of the key missing links for generating revenue growth at most companies is upstream marketing. What most people visualize as marketing involves advertising, promotion, brand-building, and communicating with customers through public

relations, trade shows, and in-store displays. Those activities are obviously of great importance but primarily "downstream" in nature--that is, they enhance the acceptance of a product or service that already exists. Upstream marketing, on the other hand, takes place at a much earlier stage by identifying and precisely defining which customer segments to focus on. It analyzes how the end-user uses the product or service and what competitive advantage will be required to win the customer and at what price points.<sup>4</sup> Understand how to do effective cross-selling (or value/solutions selling). Cross-selling can be a significant source of revenue growth, but most companies approach it from exactly the wrong perspective. They start by saying, "What else can we sell to our existing customer base?" Taking that approach is like trying to put a dress on a pig. It's not going to happen--you'll just frustrate yourself and annoy the pig. Instead of looking inside-out your organization, you need to look outside-in. Successful cross-selling starts by selecting a segment of customers and then working backward to define precisely the mix of products and services they need and creatively shaping a value proposition unique to them. Effective cross-selling ensures the proposition is presented to the right decision makers in the language of the customer and spells out the financial, physical, and post-purchase benefits.<sup>5</sup> Create a social engine to accelerate revenue growth. Every organization is a social system, the center of which is a way of thinking and acting that sets both day-to-day actions and the long-term agenda. When an organization has an explicit growth agenda understood by everyone, growth becomes a central focus--a social engine--during formal meetings as well as informal discussions. The social engine is then fueled by growth ideas as one growth initiative builds on another. People at all levels then see growth as everyone's job. The social engine and its associated tools provide the mechanism for developing the laser-sharp focus, aligning individual silo priorities and making the right tradeoffs so that revenue growth becomes a reality.<sup>6</sup> Operationalize innovation by converting ideas into revenue growth. Innovation is not the private property of lone geniuses working apart from the mainstream of the business. In any company of reasonable size, innovation is a social process that requires collaboration and communication for idea generation, selecting those ideas for revenue growth that are to be funded, and shaping those ideas into product prototypes and launching them into the marketplace. The building blocks and tools that have been outlined are the foundation of your program for future revenue growth. But remember what we said earlier. Revenue growth and productivity improvement are not conflicting goals. To keep the revenue growth engine running, you must have a disciplined program of cost productivity improvement. Not only is it imperative for competitive advantage, it provides the findings for future growth. The following chapter presents one of the core ideas of this book, the imperative of creating singles and doubles as the primary basis of your future revenue growth. We'll use several examples, beginning with a major player in its industry who, by only swinging for the fences, was frustrated over a three-year period as it failed to meet its revenue growth goals. When it started hitting a lot of singles and doubles, a gush of energy flowed through the organization and sales soared.