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INSPIRING THE BUSINESS WORLD

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Pruning without killing: 5 ways to grow a business sustainably

How leaders can better manage the tension between growth and cost reduction? Learn the 5 key elements that powers sustainable business growth

Every leader needs to manage two businesses – the current one and the one the leadership team aspires to create. Focusing too heavily on maximising the profits from the current business can result in a lack of relevance when the market moves. Nokia and Kodak, two market leaders, found this out the hard way, paying the price for a lack of relevance as the market was redefined around them.

They simply did not invest in the right areas to power future growth. Unilever's infamous 'Path to Growth' strategy was aimed at making the business more efficient, but failed to deliver the double-digit growth it promised the market.

Over a five-year period, it reduced its portfolio of brands from 1,600 to 450 and saved more than $4.9 billion in costs. However, it seriously underinvested in advertising and marketing and, as a result, reported a net loss of $318 million with underlying sales growing by only 0.4%.

Today, nearly 25% of CFOs believe their companies will cease to exist in their current form. The future belongs to those that innovate successfully and have the cash to do so. Focusing on future growth requires management time and money.

Companies that are growth obsessed often have cash flow issues that can quickly put business viability at risk. Therefore, a balanced focus (increased growth and reduced costs) is required to create a sustainable business that outperforms the competition.

So how can businesses manage the critical tensions between future growth and cost reduction, especially given that one often comes at the expense of the other?

To best manage the cost-growth tension, there are a few principles that work well.

1. Re-evaluate true value-add activity

Many businesses, particularly larger ones, find it difficult to flex and move as opportunities arise. By reducing fixed costs in areas that customers do not value, you can invest for growth when the opportunities present themselves.

Cost reduction involves removing processes and activities that don't deliver value now or are unlikely to do so in the future. These may include automation, better use of technology, reducing overheads, cutting waste, removing redundant activities, killing off underperforming products and services, etc.

2. Reinvest cost savings to fuel growth

Once cost savings have been realised, they should, in part, be used to fuel the growth engine. This is a great way to invest in the future success of your business.

3. Focus on creating an exceptional customer experience

It is no good investing in a product or service that no-one wants or values. Yet, there are a number of products and services launched each year that have not gone through the appropriate stress testing and analysis. The right conversations and testing up front can save significant costs later, while laying foundations for profitable growth.

4. Use fresh eyes and a fresh perspective

When you first start working for a new business, it's amazing the improvement opportunities you can see compared with someone who has been in the business for many years. There is tremendous value in examining costs through a fresh set of eyes. Similarly, benchmarking your business against others can provide some valuable insights.

5. Create the right culture

The right culture drives business success. So how do you define the right culture within the growth vs cost framework? First, it isn't just up to the executive team or finance team to take cost out of the business. People, at all levels, need to feel empowered, supported and rewarded for removing non-value adding costs.

Similarly, a certain amount of courageous risk taking (within defined parameters) is needed to promote the profitable growth mindset. There is often no shortage of great ideas, but how well are those ideas captured, prioritised, owned and actioned?

If you prune a tree too much it is likely to wilt and die. The same can be said for businesses. Cutting too many costs can make it difficult to survive let alone thrive and grow. On the flip side, by not pruning the tree (cutting costs) in the right way, you risk stilted growth and being overrun by businesses that have become more effective and efficient at what they do.

Managing the tension between cost reduction and supporting profitable growth has never been more important than it is today. The five principles listed above can create a healthy tension between growth and cost reduction while providing a sustainable platform for business success.

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