Navigating growth challenges on the road to £1bn

Beyond the Horizon 2

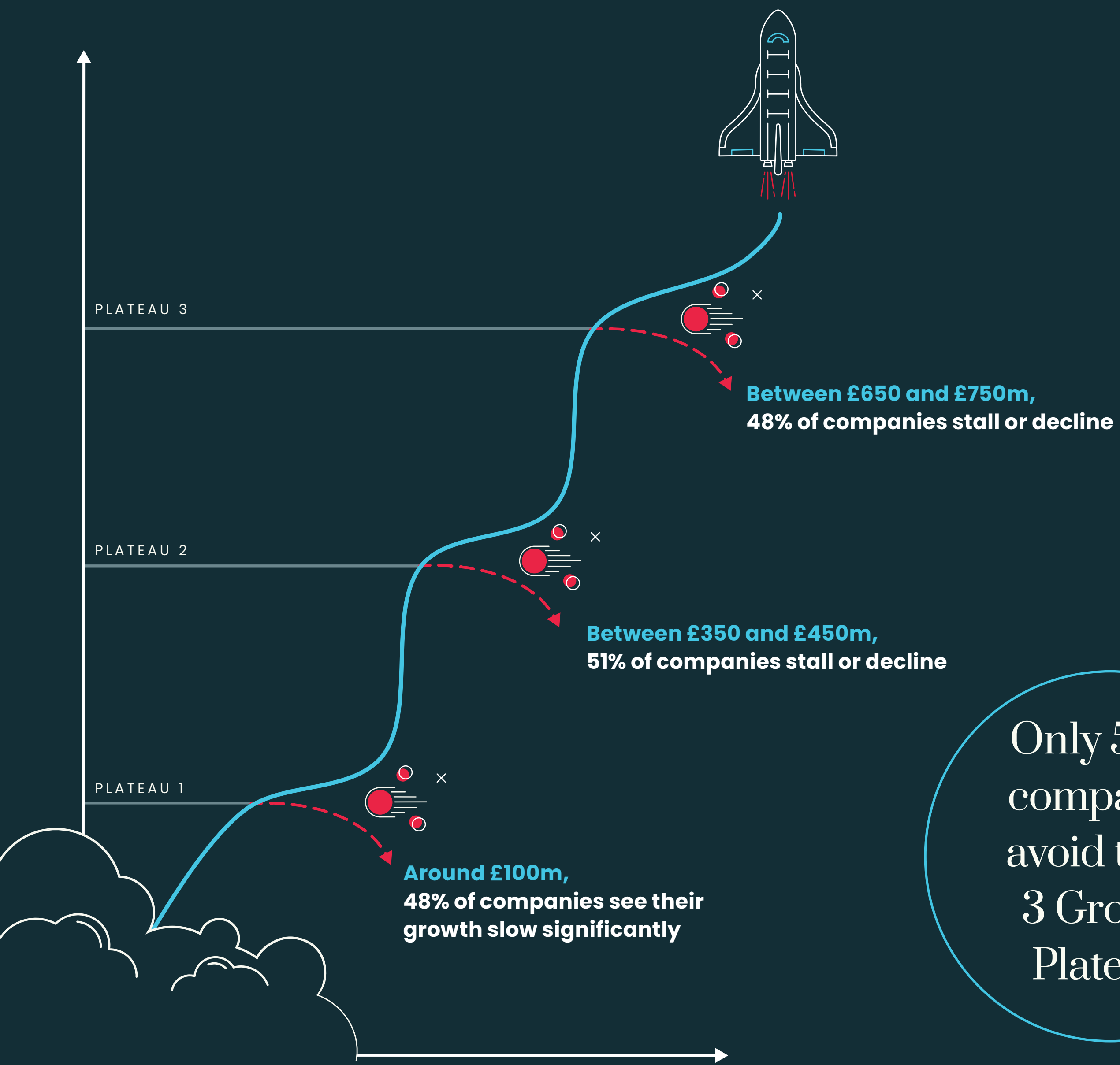
horizon

A research series by

cognosis

cognosis

Analysis of over 1,500 UK companies shows 3 distinct Growth Plateaus on the road to £1bn



Only 5% of companies avoid these 3 Growth Plateaus

Executive Summary

The road to £1bn is a tough one – sustaining long-term growth is especially challenging in a global market that is more volatile than ever. Our research shows that businesses need to navigate three distinct growth plateaus as they seek to grow from £50m revenue to £1bn.

A small percentage of UK businesses find a way to traverse through these 'meteor showers' relatively quickly and painlessly, clear to accelerate forwards on the other side. However, many others are buffeted and sent off course when they enter these 'danger zones', often needing to retreat and find a different path.

What are the main causes of growth plateaus?

Our analysis identified four major causes.

1. Saturation: Successful products or services reach their peak sooner than expected
2. Displacement: Disruptive new competitors undermine market position
3. Misfire: New acquisitions or innovations underperform growth expectations
4. Complexity: Legacy processes, systems and capability are not future-proofed fast enough to fuel growth

While all businesses will face one, or a combination, of these factors on their path to £1bn, 5% of businesses are different. We call them the 'Fliers'.

These organisations build a culture and capability that enables them to anticipate these plateaus and adapt more quickly - helping them to deliver long-term sustainable growth.

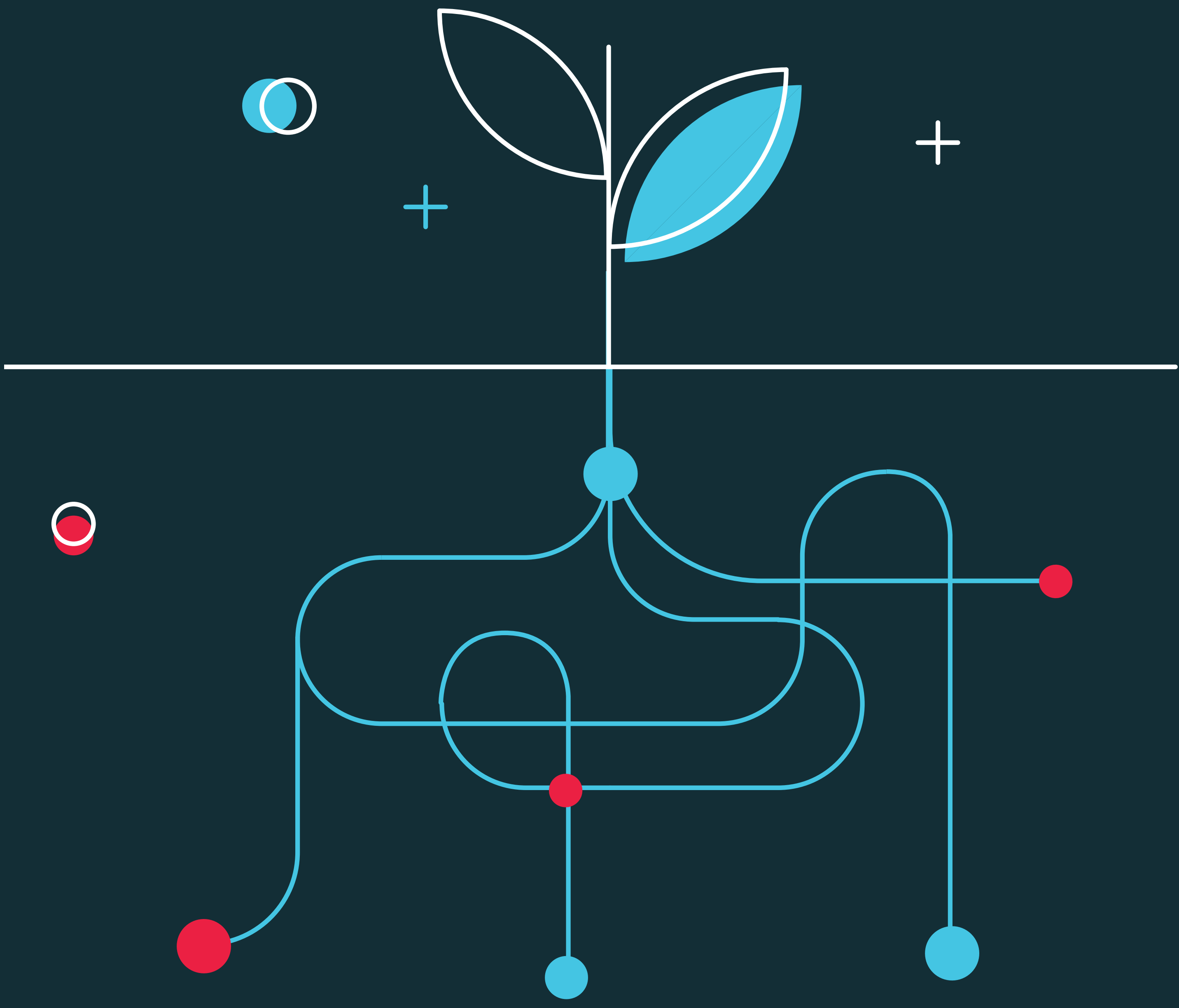
What sets the 5% apart:

We wanted to understand what set the Fliers apart. How are they different to the pack? To do this we assessed their organisational cultures and investment behaviours, based on 15 years' of financial data and one of the world's biggest datasets on organisational culture.

Our analysis showed that these companies built culture and capabilities that over-indexed on four critical and interlinked behaviours:

1. Purpose: Clarity on the company's reason for existence – the role the business plays for consumers, society and shareholders.
2. Future Focus: The ability to look forward and drive change. Investing and developing new growth engines alongside the core business.
3. Adaptability: The ability to react faster and more effectively than competitors to changes in the marketplace as they occur.
4. Customer Centricity: The ability to identify current and future customer needs and leverage this insight to drive business performance.

cognosis

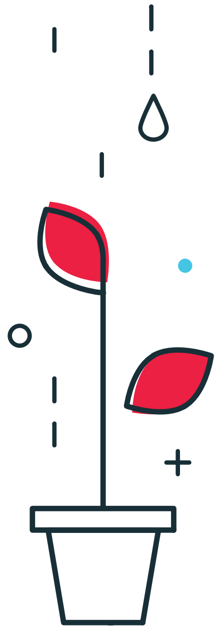


cognosis

Chapter 1

Introduction

The search for sustainable growth



Every successful business is intent not just on surviving, but on truly thriving into the future. Way into the future. This means generating long-term, sustainable growth.

Why think long-term?

Companies that behave with a long-term mindset outperform the competition; compared to other firms:

- **Revenue grows**
  by 47 percent more on average,
  and with less volatility.
- **Earnings grow**
  by 36 percent more on average .
- **Economic profit grows**
  by 81 percent more on average[1] .

Sustainable growth is the lifeblood that underpins corporate success, providing value for shareholders, customers and employees. (For the sake of clarity, sustainable in this sense means 'sustained' rather than 'green'.)

Yet, global corporate performance today is more volatile than ever. On average, one in three publicly listed companies will not exist in five years' time - that's a 5x increase compared to 50 years ago.

And all the signs are pointing towards these challenges becoming greater into 2023 and beyond.

Our Research Series

In our original Beyond the Horizon research, we examined the best growth companies globally, revealing the common behaviours, capabilities and principles that unite those companies creating the most sustainable growth in their industries.

The research covered 1,500+ companies across the globe, assessing Revenue and Return on Invested Capital (ROIC) growth relative to category averages to identify those companies that truly outperformed their peers.

We showed that over a 15-year timeframe, the most successful businesses are…

> Purpose-driven companies that build more customer-centric cultures, have greater organisational adaptability and allocate more capital to future growth opportunities

Read the full findings – www.cognosis.co.uk/horizon

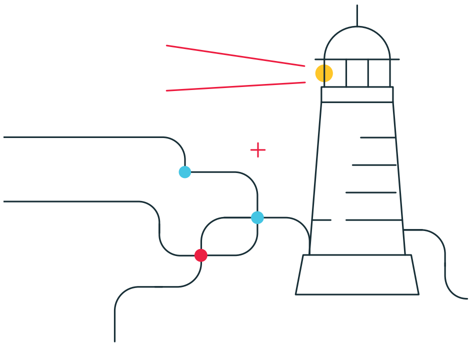
In this new research, we have turned our attention to the path to growth. We look at the most dangerous points for companies on the road to £1bn. We explore the different reasons that businesses fail to grow and, more importantly, the strategic approaches that can get them back on the right track.

1 www.mckinsey.com/featured-insights/long-term-capitalism/where-companies-with-a-long-term-view-outperform-their-peers\

Chapter 2

Hazard Alert

Prepare for tough times ahead



Analysis of the long-term performance of 1,500 UK businesses revealed that the course to £1bn is marked by distinct hazards – pressure points at which companies find growth more challenging to come by.

One in two UK businesses are likely to hit growth plateaus on the road to £1bn.

Growth plateaus are often inevitable as companies evolve and scale. In some cases, they are unavoidable due to external factors.

However, we found that the best-performing UK businesses were able to limit both the intensity and the length of growth plateaus.

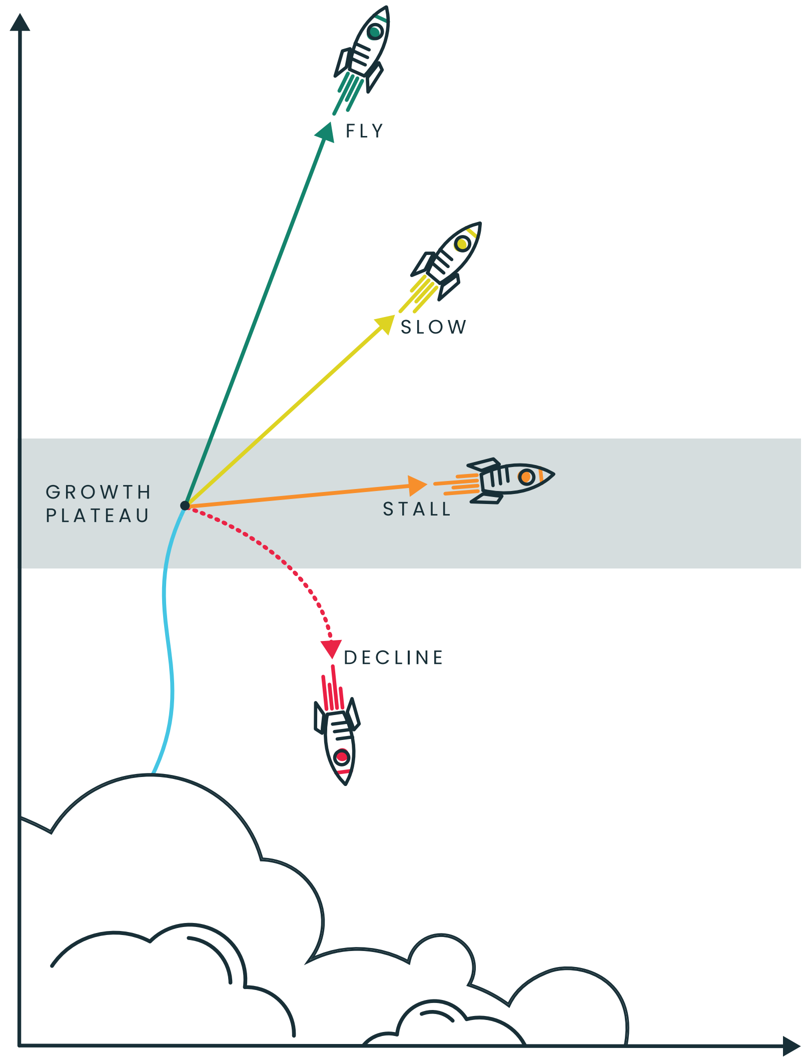
We know that companies can run out of road quicker than expected, hitting the buffers without the necessary time to brace for impact.

The path to £1bn and beyond is never going to be an easy one, but these points in that growth journey carry significantly greater risk.

In our analysis, we have categorized companies' progress through each plateau as either:

1. Fly
(minimal impact to growth trajectory).
2. Slow
(some impact but still growing).
3. Stall
(significant impact leading to minimal growth).
4. Decline
(growth goes into reverse).

Different performance levels within a plateau



GROWTH PLATEAU 1

£75m - £125m in revenue

74% of all companies experience a significant slow-down in growth

Percentages of all companies that...

FLY	SLOW	STALL	DECLINE
26%	48%	15%	11%

The most common challenge that businesses face at this revenue band is in professionalising their organisation. Making the transition from lean and focused to professional, secure and sustainable. Investment in systems, people and governance all tend to increase around this stage, which often impacts margin, knocking capacity and confidence to invest.

Professionalisation may drive new ways of working, systems and processes which are all sound in their own right, but may reduce the focus on product and customer or make the business less efficient.

Moreover, this step from small- to mid-sized business typically involves leadership entrusting others with more accountability and requires a different mindset and different capabilities than the journey to £100m.

GROWTH PLATEAU 2

£350m - £450m in revenue

51% of all companies experience either a stall or a decline in growth

Percentages of all companies that...

FLY	SLOW	STALL	DECLINE
20%	28%	28%	23%

At this revenue band, the most common challenge that businesses face is the need to drive effective expansion of their already very successful model. Growth needs to come from bolt-on acquisitions or international expansion, both of which carry risk.

This expansion exposes the business to different commercial and strategic dynamics. Flexibility is required to deliver different solutions for different parts of the business – a greater challenge than operating a business in accordance with a singular strategy.

There is significant scope for poor decisions, failure to effectively integrate new acquisitions and unsuccessful attempts to access new markets.

GROWTH PLATEAU 3

£650m - £750m in revenue

48% of all companies experience either a stall or a decline in growth

Percentages of all companies that...

FLY	SLOW	STALL	DECLINE
33%	19%	20%	28%

As businesses progress towards three-quarters of a billion in revenue, they enter a period of significant risk.

These businesses have often expanded their core offering both domestically and internationally and have reached a point where they need to diversify to continue to grow.

This places greater emphasis on commercial, marketing and supply chain capabilities to develop and commercialise new product and/or service offerings at scale.

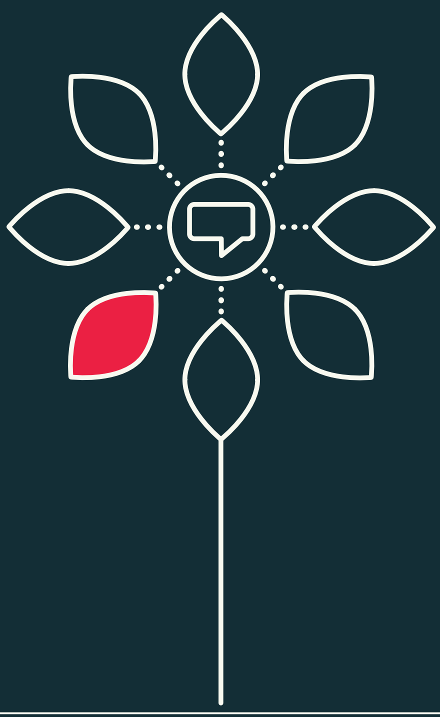
Symptoms of this diversification can be a significant growth in operating expenditure, increased business complexity and loss of commercial controls – all of which can impact performance in both the core business and new ventures.

Chapter 3

Growing Pains

The most common growth challenges

While the growth plateaus listed above are the most statistically significant risk periods for UK businesses, we recognise that every market, company and category is different and will experience challenges at different stages.



There are four common underlying reasons for stagnation or decline:

Saturation
Successful products or services reach their peak sooner than expected

Displacement
Disruptive new competitors undermine market position

Misfire
New acquisitions or innovations underperform growth expectations

Complexity
Legacy processes, systems & capabilities are not future-proofed fast enough to fuel growth

Every executive will have experienced one, or a combination of, these challenges. However, high performing executive teams can increase their chances of success by identifying the risk factors early and adapting their strategy accordingly.

The ability to diagnose risk factors sooner and change behaviours faster will help any business pass through the 'meteor shower' to open space on the other side.

But how do you recognise these scenarios?

And what strategic and organisational behaviours are required to manage effectively through these challenges?

Saturation

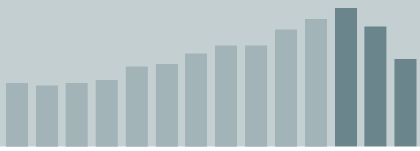
Successful products or services reach their peak sooner than expected

EXAMPLE

arqiva

Arqiva built a strong position in telecommunications infrastructure on the back of over a decade of regular, steady growth.

Aware of the risk of market growth slowing, it sold its Telecoms division in 2019 to provide capital for further acquisitions, accepting a short-term drop in revenues.



Growth opportunities in your core market start to slow as you become dominant and headroom for growth becomes limited. Significant slowing in growth due to saturation often creeps up on businesses far more quickly than they anticipate, leaving little time and space to adapt.

What are the early warning signs of saturation? High market share, slowing category growth, declining category margins and increased reliance on cost reduction to drive profit growth are all tell-tale markers that you could be about to hit a growth plateau.

So, what are the implications for strategic leaders?

How should you behave differently to reinvigorate growth and limit the impact of the plateau?

Strategic approach needed

1. Future insight: Put greater focus on understanding future trends and forecasts for both core and future categories.
2. Identify future growth engines: Define potential sources of future growth and their role relative to the core business.
3. Resource allocation: As cost pressures grow, be prepared to defend investment in future growth engines.
4. Strategic communication: Start communicating early, provide clear and compelling future narratives with careful management of stakeholders' short-term expectations.

Displacement

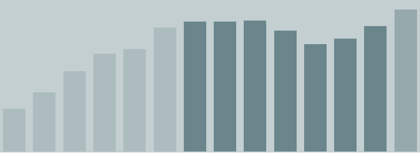
Disruptive new competitors undermine market position

EXAMPLE

Paul Smith

Following years of strong growth, Paul Smith was hit by the aggressive expansion of online clothes retailing, with its more traditional wholesale approach suffering as a result.

A review and reduction of the portfolio along with years of increased investment in D2C (stores and online) saw Paul Smith return to growth following a 7-year growth plateau.



We have all seen examples of a new player, technology or trend that disrupts a market. This threat has become increasingly real with the rise of tech-enabled businesses. Your advantage can be eroded slowly or your whole business model might even be turned upside down in a matter of months.

The early warning signs are sometimes hard to spot. How do you look out for disruption if you do not know what it looks like? How do you know which of the myriad of start-ups will punch through and make real impact?

So, what are the implications for strategic leaders?

How should you behave differently to reinvigorate growth and limit the impact of the plateau?

Strategic approach needed

1. Competitor insight: Put greater focus on competitive intelligence and benchmarking (of both traditional competitors and disruptors).
2. Scenario planning: Use future scenarios to assess, mitigate and raise management awareness of emergent threats to the core business.
3. Value proposition: Review your value proposition, ensuring your differentiation vs competition is both clear and compelling.
4. Loyalty & retention: Prioritise loyalty and retention driving initiatives to retain existing customers as you evolve and adapt.

Misfire

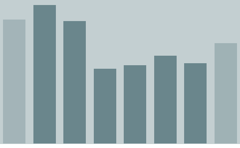
New acquisitions or innovations underperform growth expectations

EXAMPLE

SureserveGroup

From a historic focus in social housing maintenance services, Sureserve added new service lines via acquisition. With scale, focus was lost, complexity developed and the group struggled.

Four years of reducing complexity, disposing of underperforming assets and simplifying the business to focus on energy services for social housing, has brought back strong growth.



A key driver of long-term sustainable growth is the ability to invest in new growth engines alongside your core business. However, the act of investing in new growth drivers will always carry risk. This increased risk shows the critical importance of building a small portfolio of future growth bets as not all will fire.

The challenge is what to do when these investments misfire. Organisational confidence frequently erodes. Businesses retreat into their shell and refocus on the core business.

So, what are the implications for strategic leaders?

How should you behave differently to reinvigorate growth and limit the impact of the plateau?

Strategic approach needed

1. Learning mindset: Adopt a critical and honest attitude to learning why the misfire has happened and the root causes of poor performance.
2. Decisive choices: Act with speed, making decisions early to reset the course of the business.
3. Resetting expectations: Redefine management approach for bolt-on business areas, reflecting different expectations for return on investment.
4. Refresh & review: Regular reviews of short-and mid-term strategy to ensure strategic choices remain relevant through periods of change.

Complexity

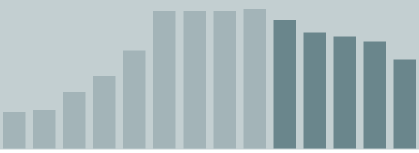
Legacy processes, systems and capabilities are not future-proofed fast enough to fuel growth

EXAMPLE

TalkTalk

TalkTalk saw meteoric early growth as a challenger to established broadband providers.

But a rapid expansion was knocked off course by a series of damaging cyber-attacks with customers deserting the brand, as it appeared unable to cope with delivering services at the scale it had grown to.



Businesses can frequently become a victim of their own success. Rapid top-line growth can lead to OPEX swelling and processes struggling to cope.

Essentially the current business model cannot cope. This can be a challenging place as the solutions often involve investment in new systems, technology and capacity – all of which are hard to switch on quickly.

So, what are the implications for strategic leaders?

How should you behave differently to reinvigorate growth and limit the impact of the plateau?

Strategic approach needed

1. Structure and process: Assessment of effectiveness and robustness of organisational design, including priority business processes.
2. Prioritise activities: Review and prioritisation of all current project activity with PMO / Change team including RACI for key processes.
3. Benchmark costs: Benchmarking of OPEX ratios across all functions.
4. Control spend: Tighten controls on new hires, non-core spend and new project initiation.

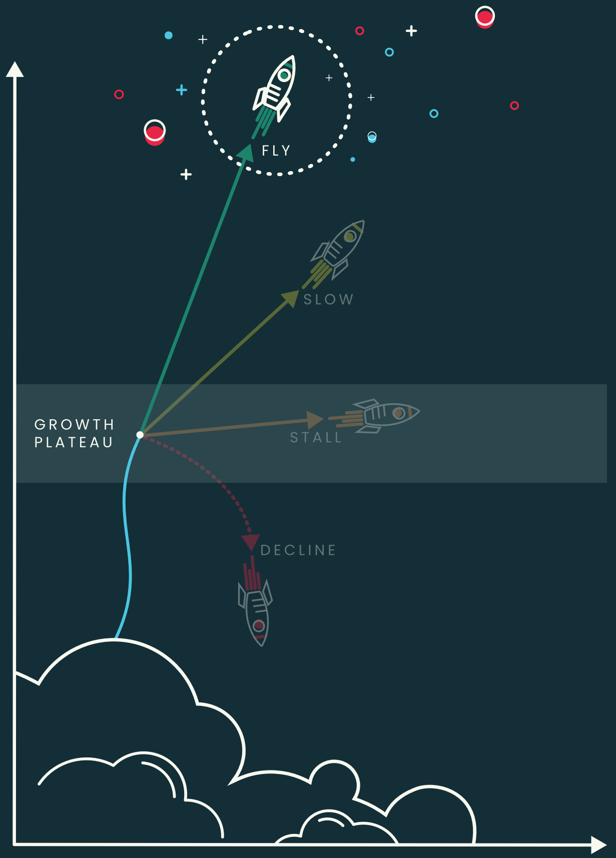
Chapter 4

What sets the Fliers apart

The secrets of sustainable growth

The very best businesses are able to navigate growth plateaus and limit their impact. We examined these rare 5% of companies – looking to identify what makes them different to everyone else.

5% fly through the plateaus



A New Code for Sustainable Growth

To understand why the Fliers performed so well we assessed their organisational cultures and investment behaviours, based on 15 years of financial data and one of the world's biggest datasets on organisational culture.

Our analysis showed that these companies built cultures and capability that over-indexed on four critical and interlinked behaviours:

1. Purpose: Clarity on the company's reason for existence – the role the business plays for consumers, society and shareholders.
2. Future Focus: The ability to look forward and drive change. Investing and developing new growth engines alongside the core business.
3. Adaptability: The ability to react faster and more accurately than competitors to changes in the marketplace as they occur.
4. Customer Centricity: The ability to identify current and future customer needs and leverage this insight to drive business performance.

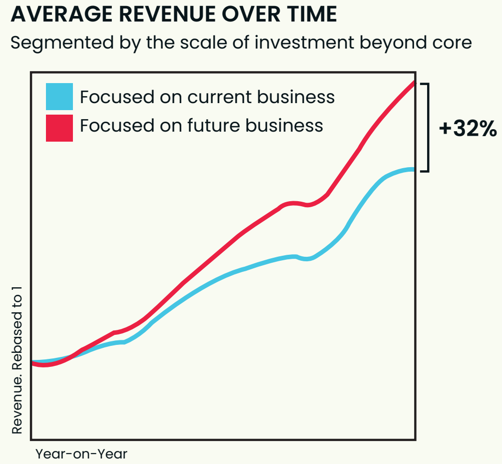
Future Focus

The ability to look forward and drive change. Investing and developing new growth engines alongside the core business.

Only a select few companies are structured to resist the systemic pressures of short-termism. We call these 'Visionary Companies'. They typically rely on a robust, cash-generative core business and disproportionately invest in future growth opportunities. They support growth ambitions with compelling strategic storytelling and a multi-dimensional operating model.

At the other extreme is the 'Myopic Company': those unable to focus on the long-term, due to a combination of pressures from investors, incentives and uncertainty. They are often resistant to change, regardless of the extent to which they need it.

Future focus requires continuous commitment. By the time you have managed one disruption and reinvented the business, it's time to do it all again.



Companies that focused on their future business drove greater growth on average. Over a 15-year period, this created an average 32% revenue benefit when compared to those more focused on their current business

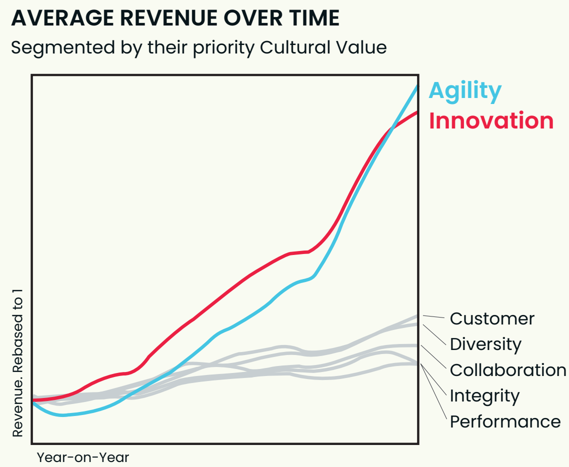
Adaptability

The ability to react faster and more effectively than competitors to changes in the marketplace as they occur.

While long-term strategy is vital, companies must also respond quickly and effectively to changes in the marketplace as they occur. They should look to become more adaptable in how they build strategy, work as a team, create products and utilise technology – all as a means to achieving quicker, better responses to unforeseen change. A cornerstone of sustainable growth, adaptability is comprised of three outcomes.

1. Insight: Clarity on how the market is evolving
2. Flexibility: The 'permission' to change course as needed
3. Speed: The ability to change course quickly

Fully agile ways of working, a lean product creation approach and a flexible operating model may seem unfeasible. But a move in that direction is possible, provided it is not a set of individual initiatives. Organisations become more adaptable when embracing all three elements in tandem, improving efficiency, adapting faster and sustaining performance for longer



Companies that prioritised adaptability & innovation outperformed the rest by a considerable margin. But whilst a focus on innovation has a positive impact on growth, it can be a double-edged sword, leading to diminishing ROCE over time. Prioritising adaptability, on the other hand, leads to the greatest increase in both value creation and growth.

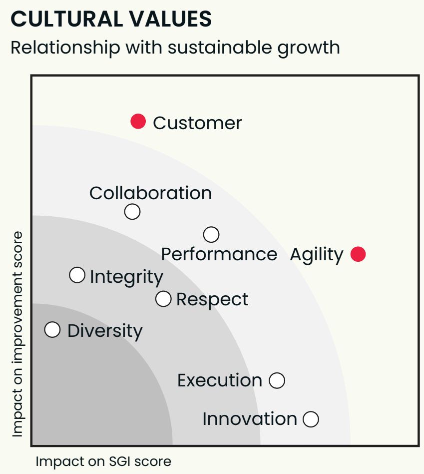
Customer Centricity

The ability to identify current and future customer needs and leverage this insight to drive business performance.

Evidence shows that the ability to identify and prioritise customer needs is the single biggest behavioural contributor to improving financial performance over the long-term. In reality, most companies do not start with an understanding of customer needs. We call these companies 'Product Centric'.

The 'Customer Centric' companies operate with a different mindset. They anticipate customers' unmet (and often unarticulated) needs and use customer insight as a basis for action across the entire organisation. They embed a customer orientation through organisational structure, process and data & technology.

Being customer centric is about more than conducting market research. It's not just about being loved by your customers. At its best, it becomes the basis for reimagining the company's proposition, products and services.



Companies that focus on the customer, more than any other cultural behaviour, see greater improvements in sustainable growth.

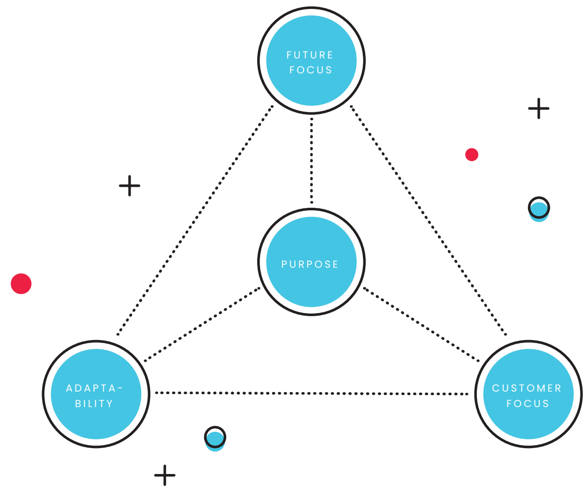
Purpose

Clarity on the company's reason for existence – the role the business plays for consumers, society and shareholders.

Future Focus, Adaptability and Customer Centricity should be the key drivers of change within an organisation, keeping it relevant in a fast-evolving environment. But without a coherent and consistent narrative to guide this constant change, organisations can lack focus, clarity and alignment.

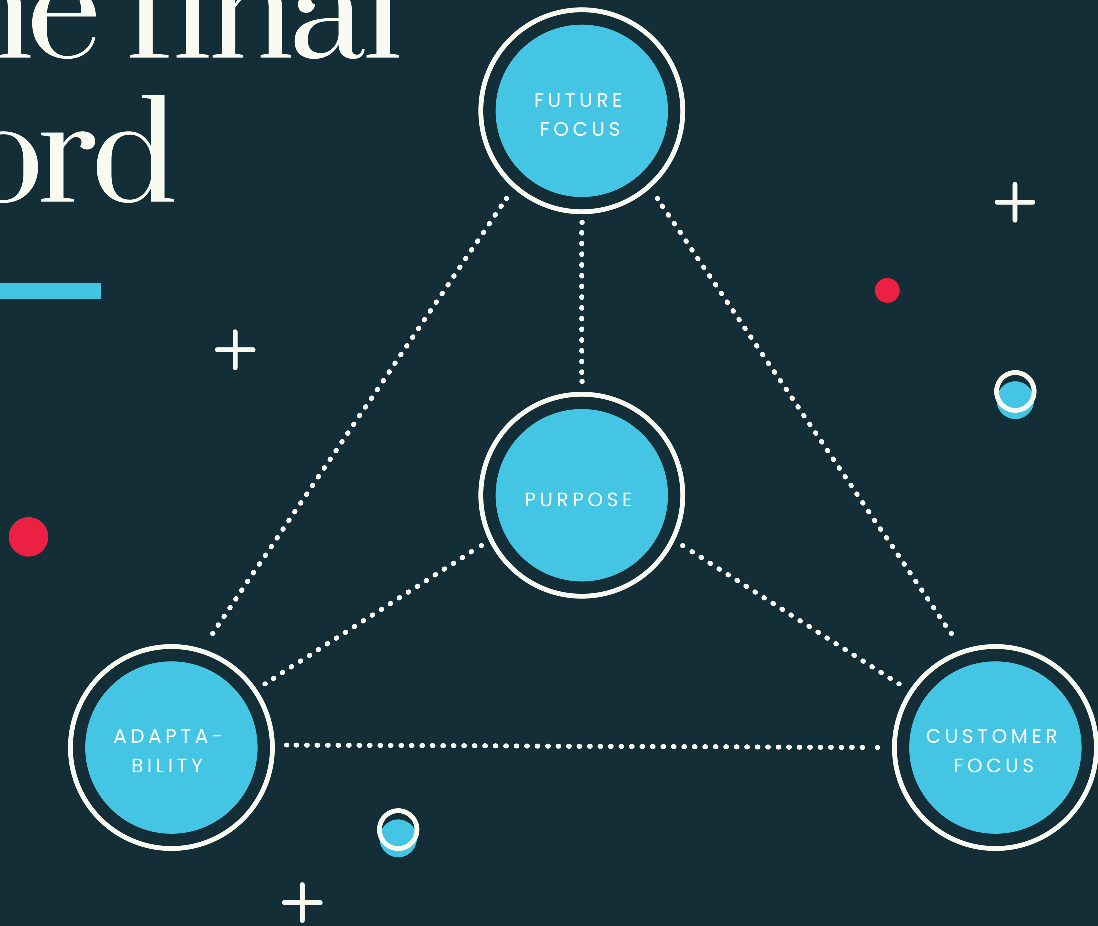
Purpose provides a shared understanding, common reference point and ultimate objective – helping create coherence amid the change.

In our model, we place Purpose at the centre of a three-cornered structure, surrounded by Future Focus, Adaptability and Customer Centricity, because of this ability to connect each of the otherwise disparate initiatives into a coherent organisation.



Chapter 5

The final word



The road to £1bn will never be an easy one, but businesses can be forewarned of the particular danger zones – the three points where growth is hardest to come by, and the common causes for growth to falter.

And more importantly, they can learn from the Fliers, those rare companies who are able to limit the depth and length of these plateaus.

We have shown that Future Focus, Adaptability, Customer-Centricity and Purpose are the most significant differentiators that help businesses create sustainable growth.

As society continues to move with accelerating speed, it is in these areas that business leaders need to evolve and improve more than any.

If these findings have been of interest, we ask that you bring them to life in your business. This is not a theoretical guide, or a manual only for CEOs. It is a manifesto for change-makers wherever you sit or whatever you do.

Don't wait for permission to make a difference.

The writers

Duncan Campbell

Daniel Hall

Marion Vieilledent

About Cognosis

We're a London-based strategy consultancy

We unlock business potential by creating strategies that drive sustainable growth.

For over 25 years, we've been igniting growth across more than 60 countries with some of the world's most ambitious companies.

What we do

SECURING COMPETITIVE ADVANTAGE
Customer Centricity
Competitor Benchmarking
Competitor War-Gaming

BUILDING STRATEGIES FOR GROWTH
Business Strategy
Purpose Definition
Value Proposition
Functional Strategies
Opportunity Identification & Sizing

TURNING STRATEGY INTO ACTION
Target Operating Model
Strategy Mobilisation
Strategic Programme Management
OKRs (Objectives & Key Results)

EXPLORING AND QUANTIFYING THE FUTURE
Trend Mapping
Scenario Planning

Who we work with

We work at both board level and with strategy, marketing & innovation teams. Whatever the industry, we're excited to work with people who are passionate about driving real change.

ABInBev
Entain
DIAGEO
AkzoNobel
arco Experts in Safety
SureserveGroup
IG
Dr. Martens AirWair
HISCOX
Lenovo
LVMH
Scholl
Staysure
Mc
Mental Health UK

cognosis

Cognosis Consulting
10 York Road, London SE1 7ND
+44 (0)20 4546 7842
www.cognosis.co.uk