Developing and Implementing an Organic Growth Strategy: Article 1 of 4 in a Series

A Verto Partners White paper

Free cash flow funded organic revenue growth - impossible? No… but it requires specific skill sets and talents which can be more challenging than one may think. Here we offer a practitioner's guide to implementing top line revenue growth strategy for the middle market company and private equity community.

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Spurring growth can be a challenge, particularly if a company has suffered from multiple years of declining or flat revenues. "Free cash flow organic growth" revenue generated from a company's own sales force and funded by internally generated cash flow, can be even more difficult. But with the right combination of strategy, talent and systematic execution it can be achieved.

More recent private equity transactions provide a leading indication that value through growth will become a critical factor for successful private equity firms in the coming years – one which, based on history, will likely be mirrored more broadly in the public markets. The 1980's saw the emergence of private equity firms as a high profile asset class, whose profits were attained mostly through a focus on financial engineering. Through the 1990's firms focused mostly on taking out costs through supplier management, operational efficiencies (including process improvements), outsourcing and restructurings. But more recently, leading private equity firms have undertaken to build growth-oriented capabilities as a source of competitive advantage, because the playing field has leveled out for the traditional financial engineering and cost cutting strategies. Growth competition is only set to increase as economic growth remains stymied and success increasingly means either increasing market share or building new markets entirely.

Removing headcount and SG&A expenses can be achieved with general skills and are the traditional ways to drive up EBITDA. However, the specific skill sets required for and complexity of driving top line growth make it far more challenging and elusive. ***"Free cash flow funded organic growth"*** requires carefully balancing a series of streams of activity, each requiring different skills and mindset, all with the potential to act in direct tension with one and other. Stated in other terms, it requires the simultaneous balancing of top line and bottom line growth so that neither suffers at the expense of the other.

1. **Developing and Executing Growth Strategy.**

   Companies are constantly challenged with the tug of war between continuing to run and service their existing customer base to sustain market share and yet thinking out of the box to find new markets and lines of business. The ability for a company to shift its paradigm and unlock breakthrough growth is difficult. Think of Sony who led the industry with product launches such as the Walkman in the 70's, had the leading music brand, but let the boat pass by as Apple launched the iPod. And, while Sony may be old news, we stand to witness a very similar result for RIM's Blackberry and their focus on their corporate market stronghold giving way to whom? Indeed, Apple is successfully making an end run with its smart phone technology and gaining corporate America's – and everyone else's – attention, while rapidly capturing market share in the process.

There are sets of strategizing tools to help management teams cross functionally integrate and collaborate to define creative growth strategies that can lead a company from strategy to execution, enabling them to maintain and even gain market share.

2. **Capitalizing and Funding Growth.**

Technology/system investments, productivity improvement, and supplier and financial management are key tactics to internally funding growth. But the challenge lies in:

- Balancing process improvement and efficiency without needing to rebuild the organization later in order to support growth.
- Eliminating costs and increasing productivity while not handicapping customer service and operational delivery capabilities. When was the last time you "pruned" low margin customers from your list (or simply increased prices to those customers)?

3. **Orchestrating and Implementing Growth.**

Executive management and the Board's challenge is to ensure all stakeholders are aligned to avoid any fragmentation and alienation in the existing teams, functions and lines of business while pursuing an aggressive growth strategy. Companies such as Disney, Intuit, and Bloomberg are examples of companies that have successfully executed and orchestrated top line growth. Paramount to success is ensuring that the targeted growth, capital creation, and operational strategies are integrated and that incentive programs are implemented that motivate alignment and balance between continued performance and growth.

Bundle in today's widespread disruptive macroeconomic market forces and current recessionary conditions and the resulting challenges can overwhelm the traditional capabilities of private equity firms and portfolio companies.

Nowhere is this capability gap more apparent and problematic than in the middle market where private equity firms and companies simply cannot afford to carry the combination of strategic expertise, operational execution and sales & marketing talent that is needed to execute and implement a successful ***"free cash flow funded organic growth"*** strategy.

Verto Partners is comprised of seasoned executives that have led management teams through all the stages of development, capitalization, and execution of growth strategies. In a series of upcoming articles we will address each of the three areas identified above, affirming our perspective and approach to them through our many decades as private equity professionals, portfolio company managers, investment committee and Board participants, M&A professionals, and parachute executives charged with realigning and executing strategy in transformative situations across a range of industries.

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