ORGANIC GROWTH

Cost-Effective Business Expansion From Within

JEAN-FRÉDÉRIC MOGNETTI

JOHN WILEY & SONS, LTD

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For my quartet.

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FOREWORD

by Albert George, President, Sodexho Alliance

Sodexho Alliance, the world leader in food and management services, is rooted in the original vision of its current chairman and founder, Pierre Bellon. In the mid-1960s, after graduating from leading French business school HEC School of Management, he joined the family's Marseille-based ship handling company. Drawing on the lessons of the dissolution of the French colonial empire, he announced to his father, 'Our business, *c'est foutu*, it is over.' He decided to leave with a clear goal, that one experience of the nightmare of a futureless industry sector is enough. In 1966 with the equivalent of €15 000 he founded Sodexho, which today is listed on the Paris stock exchange with a market capitalization of €6.8 billion (before 11 September 2001). In July 2001 the company achieved its first listing in the Fortune 500, the magazine noting that it was 27th in terms of the size of its worldwide workforce.

Since he was starting from scratch and had a real ambition to achieve something, there was only one option for Pierre Bellon:

growth. Consequently, he institutionalized growth as a founding value for his new company. We still consider that growth is the most appropriate means to reconcile, over the long term, the sometimes mutually exclusive interests of our clients, staff and shareholders.

Pierre Bellon saw catering as the most attractive area for him to express his entrepreneurial talents. The French Council for Atomic Energy in Pierrelatte, 100 miles north of his home city of Marseille, was his first customer.

He intuitively adopted organic growth as the best way of expanding his business. Organic growth operated in a very straightforward way. It consisted of setting as a priority successively becoming first in one's home city, Marseille, then the region, Provence, then the country, France, and then surrounding countries, in order finally one day to gain access to the global arena.

The company motto is 'Sticking to our knitting' – we are expert in services to public and private communities and nothing else. These skills have been developed to a simple financial recipe, strictly enforced and monitored by our current chairman and the chairman's committee: growth must be financed by negative working capital while maintaining a minimum level of investment. We have been implementing these principles on a daily basis for more than 30 years.

With this pattern of growth, by year end 31 August 1994 Sodexho had reached a consolidated sales turnover of €1.74 billion. In our opinion, the conditions were in place to involve the company more specifically in external growth operations. The objective was twofold:

- *To acquire a visible position in markets that we had not yet addressed through organic growth operations.* In this context, we acquired Gardner Merchant in the UK and the Netherlands and, as early as 1995, Partena to give us a foothold in Scandinavia.
- *To consolidate our existing operations in order to reinforce our market visibility and access to area leadership.* This was achieved in 1998 with the merger of the catering division of Marriott, called Marriott Management Services, and Sodexho USA, to become Sodexho Marriott Services.

Through this second means of growth, we aimed to anticipate globalization in order to:

- *Stick more carefully to the evolution of our customers' needs.* Among these customers were blue-chip names such as IBM, Hewlett-Packard, Nortel and Chevron, but also some other effective but more surprising global players, such as the religious schools of the Lassalien brothers congregation (1500 schools in 82 countries).
- *Negotiate world supply contracts with global suppliers.* The objective is to guarantee both economic performance and permanent tracking of product quality.

By promoting organic growth as one of its founding values, Sodexho gives legitimacy to its ambitions of external growth. More precisely, what specific benefits has Sodexho gained over more than 30 years from its addiction to organic growth?

Organic growth generates a *threefold virtuous circle.*

Regarding customers:

- It expresses the positive vote of a satisfied portfolio of customers in favour of your performance. If not there is no growth…
- It justifies continual contact with the portfolio of customers, which leads to a unique relationship based on mutual respect where we claim to have developed outstanding skills in observing, listening and implementing.
- It allows the company to stick closely to the way customers' expectations are evolving and to keep innovating continually.

Regarding staff:

- It has educational value through the systematic repetition of best practice.
- It represents the most effective means of developing employment, career development and people empowerment by rejuvenating the opportunities that are inherently associated with growth.

- It prepares our staff to become managerially speaking more nimble in terms of speed of reaction, a mandatory quality not only for organic growth but also if one starts dealing with outside opportunities.

Regarding shareholders:

- It is one of the key criteria for assessing the value of a company.
- It offers a faster and safer short-term return on investment than external growth.
- It creates the conditions for gaining the effective support of shareholders for ambitious external growth projects.

Organic growth is a permanent opportunity, which is just a stone's throw from where a company is currently positioned. It simply demands sticking to a basic rule, not only to keep staying close to customers but also to develop the skills to capture the business relevance of their weak signals.

For Sodexho the fiscal year 2000–2001 illustrated once again this winning combination: 14 per cent growth including a 5 per cent positive exchange rate:

- Solid organic growth of 7 per cent.
- External growth of 2 per cent through two substantial acquisitions, in France (Sogérès) and the US (Wood Dining Services).

For many years I have known Jean-Frédéric Mognetti, both as a professor at HEC School of Management in Paris and as an international sales and marketing consultant. In the area of managing growth, we were both convinced that Sodexho was facing a serious challenge in terms of knowledge management. The purpose was to reach a so far unknown level of formalization to give our teams the means to keep playing a leading role in the upper league, which is easier said than done!

Through this book, I am happy to see Sodexho sharing a substantial part of its organic growth experience, associated with some brilliant global companies whose international exposure is unquestionably as relevant as ours. Together we have provided Professor Mognetti with the consulting project-based raw materials for proposing a rejuvenated integrated management tools package to systematically address organic growth and to avoid sub-optimization in this field. However, beyond the suggested techniques, I hope that this book will help readers avoid misleading business fads and provide them with the business attitudes and behaviour that will allow the word *growth* to be a fundamental topic in their organization's approach to thriving.

INTRODUCTION

Over the last ten years, as a professor at the HEC School of Management in Paris, I have focused my academic and consulting interest on the sales and marketing consequences of strategic decisions. In this respect, I would venture to claim that I have contributed to bridging the too often observed gap between what is said and decided in boardrooms or executive committees and what is achieved in the field in front of customers. The concept of managing organic growth in business-to-business situations encapsulates my research and consulting experiences with a large variety of leading companies operating worldwide. One of them, Sodexho Alliance – the world leader in food and management services with €11 billion sales turnover, and more particularly its service vouchers and card division, with €4 billion issued annually in 24 countries – has provided me with the best arena for crafting and fine-tuning the organic growth concept. This results from fruitful teamwork and the uninterrupted leading support of Albert George, President of Sodexho Alliance, was critical for the development of this managerial technique.

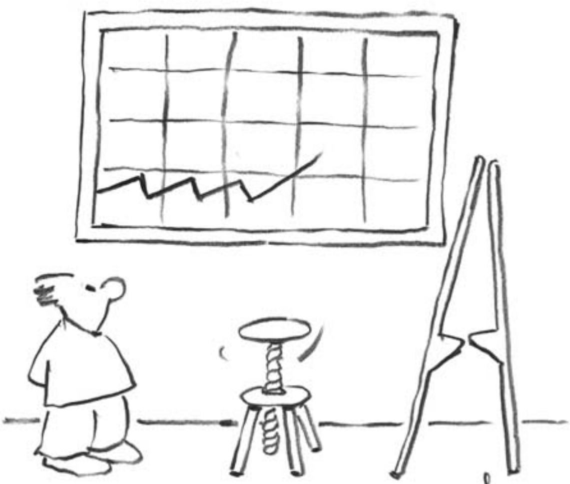
ORGANIC GROWTH: YOUR IN-HOUSE RECIPE FOR BOOSTING COMPANY GROWTH

In this book I do not intend to demonstrate how I have discovered an unparalleled basic managerial technique. In my view there are already enough of these, if not too many. In my opinion the true priority is playing with what we already have, but in a more appropriate and effective manner. This is what organic growth is doing: assembling, in a reengineered and very often non-conventional way, strategic marketing and sales concepts, most of which are individually very familiar to any manager.

One of Sodexho's core businesses, catering, offers us the most accurate analogy for describing the perspective of this book, a *tour de main* as we say in French or an 'in-house' recipe for growth. Sticking to this context, this book is mainly a 'kitchen' story, bringing us to the heart of the back office in order to succeed with growth. However, before thinking about growth performance, I consider that the key question is whether the conditions for growth are in place. Then the growth rally, with its rare but permanently sought-after ingredient, the weak market signal, can fruitfully start, led by well-judged top management involvement. Sharing this experience of an in-house recipe, I intend to provide you with some insights and practical responses for designing your own growth menu, *à la carte*.

PART I

THE CHALLENGE



If you don't turn off your mobile while travelling on another continent, your working day never ends. Falling into this trap, I was called in the middle of the night in Kuala Lumpur by one of my former MBA students.

'Hi, Jean-Frédéric, it's Olivier. I am in a meeting with Peter and Doug at GCC. Am I right in thinking you know a business game that would improve sales forecasts for the 29 directors of the Mediterranean region?'

'Do you want it on PlayStation or Nintendo?' I answered, waking up as quickly as I could.

More seriously, this question expressed real concern for the senior management of this company, in particular for its executive committee. In its role of assuring the present and creating the future, the executive committee of this express shipment company was facing a critical problem, how to take proper advantage of growth opportunities.

The situation was as follows: the company had planned for 25 per cent growth and had achieved 39 per cent. It was not the first year that performance had exceeded the forecast. This was apparently very good news, but two months before the end of the year the company was unable to fulfil the orders with its own resources. In fact, every morning it needed the equivalent tonnage of four additional 747s. This is not the kind of item you can find two blocks down on a shelf. Therefore, the company had to contract with outside suppliers, with the net result of lowering both the margin and the quality of service to all customers.

Olivier and Doug were reacting to an immediate problem facing them, but the real issue ran much deeper. In fact, this inaccuracy in forecasting has vicious organizational consequences, reaching into all spheres of the business. As in the vast majority of companies, tensions between headquarters and country subsidiaries reach a peak during budget preparation periods, when sales targets are established.

The archetypal scenario is the following: after achieving a 39 per cent increase the previous year, head office was confronted with an unbelievable proposal for the next year's sales target of 19 per cent. 'Are you kidding?' shouted headquarters. 'It seems like you are playing with the incentive scheme.' Eventually the subsidiary director corralled his troops into accepting a goal of 23 per cent, but this was still not enough for headquarters. Although head office had initially agreed to the 23 per cent target, during the final discussions it thrust a 27 per cent goal on the country manager. He left for home realizing that his troops – and he – would have to fulfil top management's belief, based on the previous year's numbers, that the stretch goal was achievable again. He could hope for a happy accident that meant he made his numbers and fulfilled his original 23 per cent goal, but he couldn't see a way to make this happen. He knew that no tree has ever reached the sky.

I don't need to describe more precisely the mood of this experienced manager flying home in his business-class seat trying to find hope in his Excel spreadsheet. How to help this talented manager is the starting point for our growth safari, which I propose to begin with this observation by Pablo Picasso in the back of our mind: 'Talent without technique is merely a bad habit.'

CHAPTER 1

THREE PROPOSITIONS

PROPOSITION 1

The *account level* represents the arena in which managerial tools must be effectively deployed through the process of accurately establishing sales forecasts based on validated, objective information.

PROPOSITION 2

Organic growth offers a systematic approach to uncovering growth opportunities of three types:

1 Maintenance.
2 Sales development.
3 Business development.

Each of these carries a different level of exposure, risk and reward. The organic growth approach hinges not only on customer satisfaction, but also on continually reinforcing both customer intimacy and customer enthusiasm for the supplier's ability to create value. *Process-based marketing*, *permanent relationship marketing* and *dialogue-based marketing* form the integrated toolkit for systematically setting expectations, fulfilling promises to customers and reducing the threat of seeing key clients considering competitive offerings.

PROPOSITION 3

The dynamic of the process of organic growth demands the active commitment of the *executive committee*. This is a generic term describing the small team that effectively manages a company, a subsidiary or sometimes a business unit. The effectiveness of the executive committee can be *de facto*, it does not have to be clearly formalized through the company's organigram.

Active involvement is part of the executive committee's mission:

- To assure the company's ability to safeguard its present.
- To create the company's future.

Effectively achieving both parts of this mission will avoid the trap of making cosmetic instead of substantive changes and enable the company to respond consistently to growth opportunities with a *stealthy marketing approach* – by the time the competition notices, it will be too late for it to react.

CHAPTER 2

THE BATTLEFIELD

In late 2000 the executive committee of a division of one of the four global players in bottling process equipment was running a strategic workshop. The conveyor line engineering division of this Strasbourg-based company included both hardware and process regulation. Its current strategic situation was fine, but not as brilliant as a couple of years ago and consequently not up to shareholders' expectations.

WE HAVE BECOME UNABLE TO ANTICIPATE

Each of the eight members of the executive committee delivered his or her own analysis following a predefined set of questions, structured to assess the closeness between the customer and the company. For ten years a close relationship with the customer had been justified by:

- Superior technical performance.
- Ability to innovate.

These two characteristics made the company globally appreciated by its customers and respected by its competition. However as usual a combination of competitive progress and internal comfort, associated with a dominant position in an industry sector, led to a situation of perceived performance parity, a business context where no strategic advantage can be expected. One of the main causes identified for the current lack of performance was: 'We have become unable to anticipate.'

The explanation was crystal clear. The company was mobilizing its resources for projects, without first having a global overview of the customer situation. The signal to mobilize resources was the project itself, so the company waited for a project. However, when the signal occurred it was already too late and everything became urgent, sometimes even reaching panic stations. An easy justification was, 'Unfortunately we were forced to adapt to changing customer behaviour. Management waits and waits and waits – and then they tell us they want it yesterday.'

ACCUMULATING CUSTOMER PROJECTS INSTEAD OF HAVING A CUSTOMER ACCOUNT PERSPECTIVE

'This type of large brewery investment does not happen by accident, it has to be planned.' So one of the new executive committee members (who used to be the head of production for one of the largest breweries in Europe) reminded his colleagues.

He added: 'The life span of such a line in a brewery is about 80 000 hours. So everything is planned accordingly. For return on investment reasons, instead of taking place in year 1 the investment will take place in year 2, even year 3, but it is in the pipeline and this is the information that needs to be managed in a proactive way.'

Reengineer the company's business information approach around the idea of customer account management instead of too narrow project management.

This kind of overall view of the whole portfolio of customers did not exist in this company. Consequently, one of the main decisions of this workshop was to: