

ORGANIC

GROWTH

**Cost-Effective Business
Expansion
From Within**

**JEAN-FRÉDÉRIC
MOGNETTI**



JOHN WILEY & SONS, LTD

ORGANIC
.....

GROWTH
.....

ORGANIC

GROWTH

**Cost-Effective Business
Expansion
From Within**

**JEAN-FRÉDÉRIC
MOGNETTI**



JOHN WILEY & SONS, LTD

Copyright © 2002 by John Wiley & Sons, Ltd,
Baffins Lane, Chichester,
West Sussex PO19 1UD, England

National 01243 779777
International (+44) 1243 779777
e-mail (for orders and customer service enquiries):
cs-books@wiley.co.uk
Visit our Home Page on <http://www.wiley.co.uk>
or <http://www.wiley.com>

All Rights Reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except under the terms of the Copyright, Designs and Patents Act 1988 or under the terms of a licence issued by the Copyright Licensing Agency, 90 Tottenham Court Road, London, W1P 9HE, UK, without the permission in writing of the publisher.

Other Wiley Editorial Offices

John Wiley & Sons, Inc., 605 Third Avenue,
New York, NY 10158-0012, USA

WILEY-VCH Verlag GmbH, Pappelallee 3,
D-69469 Weinheim, Germany

John Wiley & Sons Australia Ltd, 33 Park Road, Milton,
Queensland 4064, Australia

John Wiley & Sons (Asia) Pte Ltd, 2 Clementi Loop #02-01,
Jin Xing Distripark, Singapore 129809

John Wiley & Sons (Canada) Ltd, 22 Worcester Road,
Rexdale, Ontario M9W 1L1, Canada

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN 0-470-84484-1

Typeset in 11.5/14pt Bembo by Footnote Graphics, Warminster, Wiltshire
Printed and bound in Great Britain by Biddles Ltd, Guildford and King's Lynn.
This book is printed on acid-free paper responsibly manufactured from sustainable forestry, in which at least two trees are planted for each one used for paper production.

For my quartet.

CONTENTS

Foreword	xv
by Albert George, President, Sodexo Alliance	
Introduction	xxi
PART I: THE CHALLENGE	1
1 Three Propositions	5
2 The Battlefield	7
We have become unable to anticipate	7
Accumulating customer projects instead of having a	
customer account perspective	8
The organic growth approach	10
3 Simple Concept, Deep Managerial Consequences	11
Back to basics	11
Keep sharpening your competitive advantage	12
Perceptively confronting business reality	13
<i>Business story: Confronting business reality at Heytens</i>	13

4	Process Perspective	15
	<i>Business story: Meal voucher lookalikes</i>	15
5	Customer Perspective	19
	The customer as the essence of organic growth	19
	<i>Business story: Rieter: Promoted to a higher league</i>	20
	<i>Business story: CMD: Turning down a growth opportunity does not mean maintaining the status quo</i>	21
PART II: CREATING THE TECHNICAL CONDITIONS		25
6	A Way to Handle Strategic Issues	29
	Competitive advantage – a hackneyed concept?	30
	<i>Business story: Heytens, mass market furniture fabrics producer</i>	32
	A relevant combination to confront reality	35
	<i>Business story: We are the champions of quality</i>	39
	Confronting reality when corralled by a business formulation	43
	<i>Business story: Two weeks</i>	43
	Difference is the strategic goal – process effectiveness is the means for prolonging it	45
	Process effectiveness is yours, so be solid in its defence	47
	<i>Business story: The unsolicited guest</i>	47
	<i>Business story: Oh s***!</i>	48
	Summary	50
	Action point	51
7	Keeping Track of Business Reality	53
	Ratio no. 1: Customer satisfaction	54
	<i>Business story: It does not even take off!</i>	56
	<i>Business story: The answer is people mobility, not size</i>	57

The importance of the process demands that the customer expectations dimension be revisited	59
Expectations, promise, conformity – who is the target?	61
<i>Business story: A satisfied individual does not necessarily mean a satisfied client</i>	62
Giving the competitor room for manoeuvre	63
<i>Business story: Hit them where they ain't</i>	64
Ratio no. 2: Customer perceived value	65
<i>Business story: Not to be paid</i>	67
<i>Business story: The challenge of the appropriate unit</i>	70
<i>Business story: We are not concerned, it is not a competitor of ours!</i>	72
Summary	73
Action point	74
8 Your Role in the Customer's Mind	75
Fixer today, necessary evil tomorrow	76
Necessary evil today, fixer tomorrow	77
<i>Business story: Canal boats in Amsterdam and double-deckers in Tokyo</i>	78
<i>Business story: Charleroi Hospital</i>	79
Fixer today, fixer tomorrow	80
<i>Business story: From shipping documents to spare parts</i>	80
<i>Business story: Leather goods samples</i>	81
Increasing performance is a high-risk cul-de-sac!	83
<i>Business story: One, two, three – back to business reality!</i>	84
Summary	85
Action point	85
9 The Relationship with the Customer – a Structural Tempo	87
Two distinct phases: which role for top management and even the boss?	87
<i>Business story: Do not allow your sales force to make you play Rambo</i>	88
<i>Business story: The boss cannot lose</i>	90

<i>Business story: 10-5-1-50-1: An unwitting business lottery</i>	92
<i>Business story: Chasing margin to reinvest it in the market price</i>	94
The three facets of the discussion period	96
<i>Business story: U-shaped relationship</i>	97
<i>Business story: It took me nine months to decide</i>	98
Milestones for dialogue-based marketing	99
<i>Business story: 3, 30 or 300?</i>	101
<i>Business story: French factory workers speaking English to the Japanese prospect</i>	102
Permanent relationship marketing and ambassadors	104
Summary	108
Action point	108
10 The 3Cs	109
<i>Business story: Account forecasting card</i>	110
From 2Cs to 3Cs	111
Coverage: the critical mass of relationships	114
<i>Business story: A sales whiz</i>	114
<i>Business story: They don't like us</i>	116
<i>Business story: 1000 contacts</i>	117
Content: diversity and renewal	117
Context: the clue to next year's sales forecast	119
Summary	121
Action point	121
Kicking organic growth into gear at the customer account level	121
PART III: RECOGNIZE, UNCOVER, PRIORITIZE	125
The organic growth matrix	127
<i>Business story: An early morning fruitful discussion with Pierre</i>	128
11 Cross-Fertilization	133
<i>Business story: Diminishing customer volatility by 30 per cent</i>	133

Inheriting from the maintenance performance	134
Five steps for building a cross-fertilization campaign	136
Innovation-based cross-fertilization	140
<i>Business story: A smart prototype is not a market attack plan</i>	140
<i>Business story: The value of the innovation is unquestionable, but you are not heard</i>	142
Summary	144
Action point	145
12 Think Small, Win Big	147
From break-even point to break-even delay	148
<i>Business story: Sales development even better, losses worse</i>	148
Small accounts, inappropriate for an optimal portfolio but legitimate	149
<i>Business story: Ready for a stretch goal, hitting 70 birds with one stone!</i>	150
A weak signal behind each large virtual account	153
<i>Business story: Chance favours the prepared mind</i>	154
From weak signals rally to sales	155
The critical role of the ambassador in the network sale	156
<i>Business story: I want the same as Valéo</i>	156
A profile of an effective ambassador	157
Designing the ambassador's workshop	158
<i>Business story: Nemo auditor</i>	159
Applying the lessons of winning large virtual accounts to specific maintenance circumstances	162
Summary	163
Action point	164
13 Developing New Competitive Horizons – Business Development	167
What business are you in?	168
<i>Business story: The award for business development goes to – who?</i>	168
<i>Business development: a question of core skills</i>	169

<i>Business story: From packaging to design studio and back</i>	170
<i>Business story: We are the difficult content experts</i>	172
<i>Business story: Core skills open doors and comfort friends</i>	174
<i>Business development opportunities impelled by the client</i>	178
Summary	180
Action point	181
14 The Essence of Growth	183
3Cs can hide 5Ss	183
<i>Business story: A customer systematically reveals areas of stability</i>	188
<i>Business story: What is behind the announcement of a 37 per cent price cut?</i>	190
Two ratios for a sound customer maintenance approach	192
Summary	194
Action point	195
Kicking organic growth into gear at an account level	195
PART IV: CREATING THE MANAGERIAL CONDITIONS TO SUPPORT ORGANIC GROWTH	197
15 Are You Ready to Embark on this Challenge?	201
<i>Business story: The crisis in Asia – an alibi or an excuse?</i>	201
<i>Business story: Dare to get on the customer's ladder</i>	205
<i>Business story: The crisis in Asia revisited</i>	206
16 The Triple Benefits of the Field Challenge	209
Clarification for the executive committee of the company's positioning and its competitive advantage	209
Consideration given to the operational staff in the field	209
Demonstrated care for the customer	210

17 The Prerequisites of the Approach	211
18 Three Suggestions for Embarking on this New Set of Tasks	213
Vision	213
Team spirit	214
No dead wood, no free riders, no fiefdoms – but a dream team	215
Is the relevant information available?	216
<i>Business story: One, two and three</i>	217
<i>Business story: They go skiing</i>	218
<i>Business story: The Conrad in Hong Kong</i>	221
<i>Business story: There are calls and calls: fooling oneself with good intentions</i>	222
<i>Business story: The tough benefits of confronting reality – who are you working for?</i>	223
Mastering the offer: is the executive committee good at playing Lego?	224
<i>Business story: It does not exist</i>	225
<i>Business story: Château bottled for the staff</i>	229
Summary	230
Action point	230
19 Ready to Operate – Executive Committee Members in the Field	231
<i>Business story: Nothing to report</i>	231
Executive committee members fine tuning their field involvement	234
No confusion about the goal	234
<i>Business story: Zero</i>	235
Listening and observing: laudable goal, but has the right context been created?	236
A customer account call: back to the 3Cs	237
You need a break, not a pause	239
Summary	243
Action point	243

20 The Crop – Lessons of Field Involvement	245
Process–people–patrons: the respective benefits	245
Transforming weak signals into successful market attack plans	248
Was it worth it?	250
<i>Business story: Jean-Frédéric, I am furious</i>	251
Hurry up slowly – skipping the step but not missing the trap	254
Taking a break without drawing relevant conclusions is also merely cosmetic	257
<i>Business story: A bug in the network sale</i>	257
Summary	260
Action point	262
Building bridges through organic growth	263
Afterword: Killing your ambassador	265
A word from the author	265
Killing your ambassador: the customer’s experience – by Nancy Roth Remington, Executive Director of International Programs, Goizueta Business School, Emory University, Atlanta	269
The company responds – by Peter Davies, Chief Operating Officer, International Americas, DHL Worldwide Express	285
Index	293

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 Sodexo 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 Sodexo USA, to become Sodexo 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, Sodexo gives legitimacy to its ambitions of external growth. More precisely, what specific benefits has Sodexo 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 unques-

tionably 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, Sodexo 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 Sodexo 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.'

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

6 THE CHALLENGE

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.

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.’

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:

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