

## The Value of Systematic Organic Growth

Various studies have demonstrated what business leaders understand instinctively. Sales expansion is the most significant contributor to overall enterprise value; and while there are several ways to achieve it, organic growth is the highest quality means to do so. Organic growth measures a firm's ability to deliver higher unit volumes and prices in the business portfolio without distortions such as acquisitions, divestitures, and currency fluctuations.



It is noteworthy that as the economy sped up in 2017, leading consumer products firms struggled to maintain typical organic growth rates. Nestle's organic growth rate hit a 20-year low in 2017, and few of her global peers escaped difficulties.

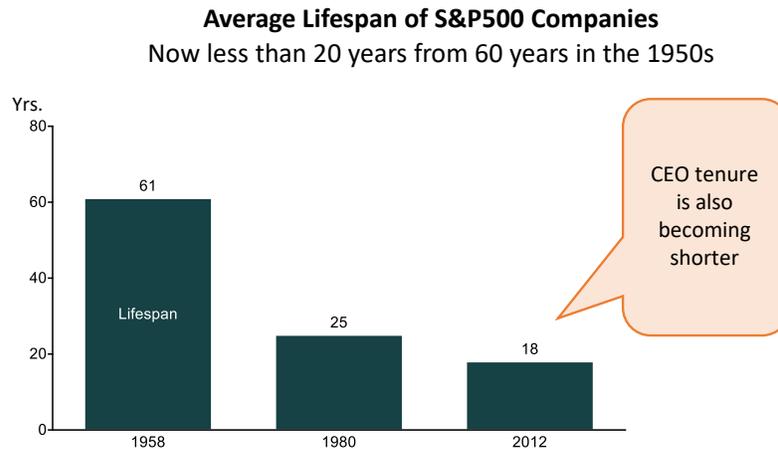
Organic growth is the foundation of corporate staying-power because it demonstrates product differentiation and the ability to execute in the marketplace. Accordingly, it delivers essential signals about a company's ongoing relevance to customers and career attractiveness to employees. Amazon's impact of upending the traditional drivers of product branding and distribution is certainly playing a role in the fortunes of many consumer products firms, but it is unlikely to be the only factor doing so.

Should you care about this if your company produces industrial products rather than consumer goods? We think the answer is a strong yes.

The pattern of organic growth setbacks affecting many of the world's most sophisticated marketing and sales organizations in 2017 offers a warning to those in other sectors that business success factors can change substantially. Companies with strong orientations to customer segmentation, solutions innovation, and strategic marketing are likely to perceive developments early, giving them an edge in the race to adapt.

We have observed across several industries that methods commonly-used to generate commercial insight by consumer products companies find limited application in their industrial goods counterparts. Instead, the marketing function often has a strong production orientation, focused on price competitiveness

through output maximization. Equally necessary to rigorous cost management is maintaining a perpetually high awareness of emerging and potentially disruptive forces to the drivers of demand. Without this, a company risks becoming detached from the market and increasingly vulnerable to financial hardship. Inferring from the compressing life expectancies of companies shown in the exhibit below, this is a prevalent problem.



Source: Credit Suisse

In-depth studies to understand what drives a business' organic growth and differentiation need not be done continuously, but they should occur at appropriate intervals with findings monitored by executive leadership throughout the year. By occasionally pairing internal marketing and strategy teams with outside advisors, companies can avoid the costs associated with maintaining full-time staffs having this kind of capability. Moreover, consultant objectivity can be useful to the firm acquiring new skills while circumventing organizational biases or unknowing reliance on old methods.

Organic growth stalls can happen to any company. The key to regaining momentum sensing disruptive market forces early and acting decisively on their strategic implications. Threats can develop slowly or suddenly, so management needs to be systematic in how it monitors the environment.

How dependable is your organic growth capability, and how prepared are you to control events when faced with competitive disruption to your business model?

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