Maintaining Momentum: How Mature Businesses Can Boost Growth

By Knowledge@Wharton

Mature middle-market companies may not recapture the high-octane growth they knew as start-ups. But in addition to maintaining the core business that is throwing off cash, they can adopt an entrepreneurial mindset that capitalizes on new growth opportunities. Experts at GE Capital and Wharton look at how companies can pursue these dual paths.

Companies of all sizes and stages of growth must navigate today's fast-moving business environment where threats from new technologies and unconventional competitors are constant. But the circumstances are particularly difficult for mature middle-market companies that have left behind the hyper-growth of their early years. These companies must protect their core business as they look for new avenues of growth.

While jump-starting growth at this stage is not easy, some middle-market companies manage to stay operationally, culturally and financially agile enough to innovate, differentiate themselves and keep growth moving along. Mature companies may not recapture the high-octane growth they knew as start-ups but they can achieve the best of both worlds — an established core business that's throwing off cash while adopting an entrepreneurial mindset that will allow them to capitalize on opportunities for growth.

In fact, a survey of 2,028 C-suite executives from private and public businesses found that some mature middle-market companies are actually "growth champions." Completed by the National Center for the Middle Market (NCMM), a partnership of The Ohio State University Fisher College of Business and GE Capital, the survey included 1,447 middle-market companies (those with $10 million to $1 billion in revenue). Among these, the survey identified an elite group of companies that achieved exceptional double-digit growth over several years. About 20% of these faster-growing companies described themselves as being beyond the start-up and growth stages.

So how do some leaders accomplish this feat? In interviews with industry experts and practitioners whose job it is to help these companies grow, there appear to be four major hallmarks of success:

- Focus on customer solutions;
- Invest in innovation and new product development;
- Seek new growth nationally or even internationally; and
- Have the right financing in place.

Think Like A Customer

According to the survey, one key driver for success in the middle market is the ability to attract new customers. Thus, it's no surprise that the growth champions in the survey invest heavily in their customers: 72% see themselves as successful in strengthening customer relationships.

George Day, a marketing professor at Wharton, says that customer centricity is critical for growth. It requires that management look at the company from the customer's viewpoint — outside-in. Instead of focusing on what products and services to sell to customers, companies should focus on solutions.

"A solution is much more than bundling products and services," Day says. "It's about asking what elements of an integrated solution do customers need to be more successful and more profitable." To pull this off, leaders must encourage collaboration by breaking down organizational silos and putting the right incentives in place to coordinate. For example, if product line managers are accustomed to working toward their own sales goals, the company could offer greater financial incentives to schedule joint client meetings with the various line managers while having them bundle together their individual products.

Day notes that "mature companies stagnate when they become providers of undifferentiated products. But if they have a close relationship with clients helping them to solve problems, it's harder for customers to dislodge them." That makes it "important for mature middle-market companies to keep customers close, and providing financing or connecting them with lenders is a big part of that."

John R. Percival, an adjunct professor of finance at Wharton, says that some mature middle-market companies try too hard to recapture the hyper-growth of old. "They risk starting to do stupid things to reach for growth in sales. They overpay for acquisitions, they get into businesses they don't know anything about, they sacrifice margins."

Develop Innovation Prowess

The strongest common theme among growth champions in the NCMM survey is a focus on innovation. More than half of growth champions invest in innovation and new product development compared with only a quarter of the rest of the segment. Further, growth champions typically invest almost 2.5 times more in research and development per sales dollar than do lower-growth middle-market firms.

"They need to think in terms of the company's ability to sustain itself over the long term," says Oscar Villalonga, a senior managing director in GE Capital's corporate finance group. "Are they innovative enough to stay ahead of the curve?"

Of course, being innovative during a company's start-up and growth phases is one thing. But innovation becomes increasingly difficult to manage as companies mature and certain ways of doing business become entrenched. Leaders of mature companies need to bring discipline to the innovation process. One way to do that is with the innovation tournaments described in a book by Christian Terwiesch and Karl Ulrich, both Wharton professors of operations and information management. Titled Innovation Tournaments: Creating and Selecting Exceptional Opportunities, the book explains how such tournaments can serve as a critical proving ground to sift through many potential opportunities and steer the company's resources.

Go Global

Many mature companies seeking new growth look to expand nationally or overseas. The NCMM survey found that globalization was a common trait of the faster-growing companies: 44% of growth champions operate globally, compared with 18% for the rest of the middle market. In the U.S., 65% of the faster-growing companies are expanding from a local/regional focus to the national market, while only 39% of other middle-market firms are doing so.

For management teams aiming for such geographic expansion, access to lenders with knowledge of industry best-practices can prove very helpful. And industry experts and practitioners that work with mature companies say that the best lenders share two critical traits — they can offer diverse financing solutions and they have deep domain expertise.

Arrange Flexible Financing

To support customer centricity and innovation, business leaders need a long-term financial strategy that's flexible enough to adapt to market changes — and not force a scramble to arrange financing at the last minute. "The speed of change in terms of products and services means that mature companies need to work hard to stay ahead of the curve, and that includes having the right financing in place — as their business needs change," says Charles Pignatelli, a managing director in GE Capital's corporate finance group.

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One common challenge for mature companies, adds Villalonga, is realizing they've outgrown their credit facility. "It's not unusual for them to realize that their strategy has evolved and their financing facility has become sub-optimal. If they are facing a new business reality and their current facility doesn't support their expected growth opportunities, it might be time to consider new options."

The right lender can also offer counsel to the CEO and CFO. Lenders unfamiliar with an industry are likely to have more rigid underwriting standards and to attach covenants, such as a maximum leverage ratio or a minimum-interest coverage ratio. But lenders more familiar with a company and its industry may be willing to give borrowers more freedom to operate.

Of course, flexibility requires trust. The company must articulate a growth strategy to the lender and instill confidence that the management team can carry out the strategy, says Villalonga. But once the financial institution buys into that growth strategy, it can prepare a financial plan tailored to the customer's strategic needs. If it's an acquisition strategy with a pool of several potential candidates in adjacent industries, the financial solution could be a large "accordion" line that can expand under certain conditions. If the acquisition target is specific, a lender may pre-commit, which is useful if bidding is expected and fast action is necessary.

Conclusion

As a company graduates from the start-up stage, growth targets get harder to achieve. To keep revenue on the upswing, the company needs to stay focused on its customers, understanding and anticipating their needs. It should experiment with new ways of doing business and consider moving into new geographies. Finally, they also need to focus on financing requirements, which can often become more complex or diverse as companies mature.

Many companies stumble during this transition since moving to the next level of growth often takes new ideas and new markets. But a smaller number thrive — despite the challenges of re-inventing portions of the business — and find ways to jump-start a fresh growth cycle.

Key Take-Aways

- Even mature middle-market companies can jump-start growth by staying agile and continuing to innovate.
- Invest in your customers and provide them with the solutions they need to succeed.
- Stay ahead of the curve by continually focusing on research and development.
- Push your boundaries: Seek growth nationally or overseas.
- Map out a long-term financing strategy with lenders that understand your business.

This article is a collaboration between GE Capital, Americas and Knowledge@Wharton, the online research and analysis journal of the Wharton School of the University of Pennsylvania.

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