

OLIVER WYMAN

Achieving Profitable and Controlled Growth as a Midsize Company

A Research Study by the
Oliver Wyman Group

Sponsored by SAP



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Executive Summary

Mid-sized businesses are facing similar challenges as their larger counterparts (e.g., always shifting customers priorities, acquiring and retaining talent, operating in multiple geographies, complying with regulations, etc.) but they handle them in very different ways. They are by no means a smaller, simplified version of Fortune 500 companies. Today's mid-sized businesses are anything but simple, standard or easy to categorize. Nonetheless, they do have common attributes. Most of them are focused on profitable and controlled growth. They often have deep expertise in a narrow field and serve niche markets. They are very pragmatic about change and identify flexibility and adaptability as a key enabler of success.

The most successful mid-sized businesses have implemented best practices that lead to financial success. According to a recent Oliver Wyman study, those that excel at managing profitable growth have six common distinguishing features:

1. Disciplined execution at all levels.
2. Create a culture in which people readily adapt to change.
3. Focus their whole business on a few initiatives.
4. Make effective trade-off decisions about investment.

5. Maintain strong metrics and feedback loops.
6. Promote excellence in execution.

Some of the highly successful organizations we have identified have invested heavily in technology and they use IT as a key enabler of flexibility, adaptability and performance. In most cases, they have built some key element of their software systems on their own at considerable time and cost. While it makes sense for these companies to follow this potentially expensive path, most business environments do not allow for such an expense in time, money and resources. Consequently, most mid-sized businesses are left with an IT infrastructure that either does not offer the breadth and depth of functionality that they require or lacks the flexibility and adaptability they really need. These organizations require a new type of enterprise software.

The enterprise software market has not, in the past, offered what many mid-sized businesses really need: a comprehensive software solution that is flexible and transparent, easy to implement and easy to modify. Such a solution would allow executives to focus on their business and not on their IT and more easily respond to changing customer requirements.

Introduction

From start-ups or family ventures to the Fortune 500, businesses have a wide variety of sizes. The smallest and largest companies often receive attention from the government and the press; mid-sized businesses are sometimes overlooked. They are a diverse subset of businesses that straddle the worlds of local business and complex global enterprises. Many are still constrained by the budgetary limitations of small businesses whereas others are building billion dollar empires. They are growing both in number and in size, and are a vital part of the global economy. However, in the 21st century business climate, they face tough competition from larger companies and increasing demands from customers. Mid-sized businesses do not have the same resources as their larger

competitors, but they often need to serve the same customers and do so in a profitable way. The companies that are most successful in this business environment have been able to spur growth in sales, earnings and cash flow. During the course of two studies involving more than 270 mid-sized companies, SAP and Oliver Wyman investigated the key objectives and aspirations of these businesses, the challenges and obstacles they face and what role technology plays to enable potential successes. Oliver Wyman also isolated six key practices that contributed to successful growth in all three areas (sales, earnings, cash flow). By adopting these practices, small and medium-sized enterprises can improve their performance, compete with larger competitors and thrive.

The state of mid-sized businesses

Mid-sized businesses face similar challenges as their larger counterparts...

Mid-sized businesses are no longer content to remain cornerstones of their local communities and most are growing, expanding nationally and internationally. In some ways, they deal with the same challenges as the larger enterprises, something that they claim is necessary in today's business environment. Due to increasing energy prices and the cost of labor in the west, many are sourcing and hiring globally. They are complying with a myriad of international finance regulations, and have to reconcile income from different countries in different currencies.

...but they are completely different entities

The similarities stop here as they are by no means a smaller, simplified version of Fortune 500 companies. Today's mid-sized businesses are anything but simple, standard and easy to categorize. Some mid-sized businesses are recent start-ups that are experiencing extremely high levels of growth; others are over one hundred years old. Some are con-

tent with single digit growth and stability while others are expanding globally. Some are public, others are private, and some are family owned. Mid-sized businesses often have deep expertise in a narrow field and serve niche markets. Unlike their Fortune 500 competitors, they may focus on only one or two links in the value chain, and their business designs reflect this narrow focus.

Mid-sized businesses operate very differently than large, bureaucratic companies. They have a practical approach to change and do not waste time theorizing when faced with changing customer needs and priorities. They are driven by actions and outcomes rather than the processes that produce them, and they do what is necessary to achieve their objectives. They also have strong customer relationships that can impact their product offerings or delivery methods. As one technology company CFO explained, his company's key to success is "staying in touch with the customer, and building things that serve them." But speed is a factor as well.

“Our only way to compete against the big guys is to be quicker. We have to be fast and nimble or we can’t compete. They are slower to recognize trends and take a year to do something about it. We don’t have to wait.” This lack of bureaucracy and speed of decision-making sets them apart from larger companies and is one of the most important advantages that mid-sized businesses use to stay ahead of their competitors. They are only restrained by the time it takes to put these plans into action, so it is important for mid-sized businesses to have the flexibility and adaptability to handle these changes.

Mid-size businesses are focused on profitable and controlled growth

Profitable and controlled growth is a pivotal objective for nearly all mid-sized businesses because their company’s survival depends on their ability to make a profit. However, they are aware that rapid growth is not the only benchmark of success, and can even have negative effects on their existing business. As one manufacturing company CFO explained, “We deliver productivity and value to the end customer. We’re not interested in growing at whatever cost. We like a steady, controlled, logical growth with a long-term view.” Of the Oliver Wyman interview sample, 56% of mid-sized companies were pursuing growth only through organic means. The other 44% were combining organic growth with acquisitions. The acquisition-oriented companies were growing 26% per year, while the organic growth-oriented companies grew at a rate of 22% per year, suggesting that both are viable approaches to high levels of growth.

When trying to grow and improve profitability, mid-sized businesses have key objectives that contribute to their extraordinary success or to their lack thereof. These objectives include improving operating efficiency, better understanding the business (data & analytics) and increasing predictability, hiring and training talent, operating a global busi-

ness and balancing business growth and infrastructure growth, especially in the area of technology.¹ Reaching each goal is a challenge and requires that mid-sized businesses overcome a variety of hurdles that stand in their way. Mid-sized businesses have limited resources and are not always equipped to handle these problems with ease, but they can overcome them despite their limitations.

Six practices contributing to extraordinary, profitable growth

The most successful mid-sized businesses overcome these obstacles by implementing best practices that lead to financial success. In 2006, Oliver Wyman studied over 200 companies (large, medium and small) across the U.S. and Europe to uncover what separated those achieving an exceptionally high degree of profitable, organic growth from those that had less success in this dimension. Oliver Wyman was able to determine why high organic growth companies are different than other companies and isolate the organizational factors that make them successful. This study developed the concept of “growth champions,” the 12% of companies in their sample that had consistent year on year growth in revenue, net operating income and share price at twice the rate of the others. These growth champions have six distinguishing features, which “are mutually reinforcing, [and] reflect a clear difference in priorities between growth champions and other businesses. They put companies at a significant competitive advantage.”² Interestingly, these organizational factors were consistent across all the company sizes examined. They include disciplined execution at all levels, a culture in which people readily adapt to change, focusing their whole business on a few initiatives, making effective trade-off decisions about investment, maintaining strong metrics and feedback loops, and promoting excellence in execution. These practices may appear amorphous or unattainable to companies that have not yet embedded

The growth champion blueprint



them into their corporate culture but, according to the study, “they can be measured and they can be learned.”³ They are detailed in the exhibit above.⁴

1 Disciplined execution

Disciplined execution is essential for companies to compete in a quickly changing marketplace and bring their products and services to market in an affordable, timely manner. It may not be the primary concern for start-up companies that are focusing on gaining customers and gaining a footprint in the market, but it is vital for established companies that are facing pressure from larger, more established competitors. The dual pressures of price competition and rising energy and raw material costs are forcing companies to be disciplined and reduce inefficiencies or risk having their prices undercut by their competitors. This pressure is particularly acute for manufacturing companies, for whom efficiency can be the difference between profit and loss. One manufacturing CFO, whose company is growing at 12% a year, noticed that his company’s labor costs were compromising their profitability. He said, “As the Euro went up against

the dollar, we moved our production from Europe to the U.S. to save money.” This decision to out-source allowed him to produce goods more cost-effectively.

2 Culture of adaptability to change

Developing a culture in which people readily adapt to change is essential to being able to keep up with the market. Flexible people allow companies to adapt, executives say, and hiring and training them in the ways of their corporate culture is a top priority. If a company’s staff does not take the initiative to suggest changes and refuses to embrace change from above, it is impossible for a company to operate efficiently and meet customers’ changing needs. A services company executive explained that culture is so important that, “If you can’t change the people, you have to change the people.” One manufacturing company executive explained how his people’s resistance to change was a factor in poor performance a decade ago. “We are an old line company with old line people, and they were always resistant” to changes in technology. In the late 1990s he tried to implement an integrated

business applications suite, but the staff resisted because “they felt like people were trying to shove it down everyone’s mouth.” The implementation ultimately failed. Ten years later, attrition has altered the corporate culture from one that resisted change to one that embraces it. “Recent growth of the company has demanded that we do something,” he explained.

3 Focusing on a few initiatives

Maintaining a narrow focus on a few initiatives is critical to a mid-sized business’ profitability. Mid-sized businesses have much more limited resources than their larger competitors, so they need to focus their time, energy and money on their primary goals and immediate needs in order to achieve them. They turn to outsourcing only when they realize that it is impossible to make a

profit at home, and they modify their customer-facing processes only when a customer demands it. One financial director of a media company explained that, while they have a standardized billing system, one customer wanted her company to adopt an online billing system. Her company was able to make the changes to satisfy that client’s request, but did not formalize the online billing system or make and large-scale changes to her business’s processes. As she explained, “I’m not going to change the system for that one client.” As this story illustrates, the mid-sized business approach to process change is a pragmatic one, and thus the term “business process transformation” does not resonate with mid-sized businesses. They do change their business processes when achieving a specific outcome necessitates it, but their focus is on meeting their goals, not changing their processes.

Case Study 1: A Best-In-Class Company

Industry: **Manufacturing**

Geography: **Based in Germany with subsidiaries in Austria and the UK**

Employees: **300**

Growth Strategy: **Organic growth only**

Annual Growth Rate: **20% per year for 5 years**

One German manufacturing company has a standard bookkeeping system, but a highly customized, proprietary logistics system that their CFO believes is the key to their success. Creating the system was an enormous undertaking—it took 8-15 programmers two and a half years to create it. However, it is able to process orders on the day they are placed and make deliveries the next day. For some, more complicated orders that require customization; they can program their machines overnight, produce the product the next day and deliver the order within two days of when it was placed. According to the CFO, this speed of deliver is their main competitive advantage compared to their competitors and is an important component of their success. Their systems are highly automated and can react quickly to different tasks and can move or replenish internal and external stock. It can even change the stock in the picking and packing areas overnight depending on the weather forecast. The CFO boasted that this system is “able to change everything necessary,” but noted that its only shortfalls are its expense and its needs for programmers. “If you develop your own systems you also have to create updates to the system,” he said. “In a standard product, that is included.” Even so, his investment in technology has paid off. This company has been growing steadily at 20% per year for five years.

4 Make effective trade-off decisions about investment

In order to make effective trade-off decisions about investment opportunities, a business leader needs two things: good judgment and access to data. Judgment may be innate or potentially taught, but for leaders of mid-sized businesses, making daily decisions that can affect their business' performance, knowledge about their company is pivotal to reduce the risk of making a poor investment. The ability to access their own data and quickly make changes can be worth thousands of dollars in profit, yet it is a challenge for many mid-sized businesses. As one CFO, explained, "On our systems, getting key numbers is a process. There's no quick and dirty." Another added that "I can't get global reports. I have to take five or six reports and consolidate them, yet I still only get limited information...it's impossible to meet changing business needs." This is often due to mid-sized businesses inability to invest in comprehensive IT solutions. As one manufacturing company CFO said, "We need up to date information in the same time frame as big companies, but we don't have the same resources." A 2006 study by Oliver Wyman of over 1,000 mid-sized businesses validated that reporting and data analytics are crucial tools for mid-sized businesses. 68% of companies said that the ability to modify and add to standard reports was a must-have for any integrated enterprise application suite.⁵

5 & 6 Promoting excellence in execution and maintaining strong metrics and feedback loops

Mid-sized businesses themselves identify their people as their greatest source of adaptability, and promoting excellence in execution and maintaining strong feedback loops are the best ways to keep them engaged and retain them. Successful mid-sized company leaders value both their management and employees, and encour-

age them to take ownership of their portions of the business. It is important that each employee understands their personal objectives and how they contribute to the company's success as a whole, how their individual performance will be measured, and that they get good feedback on their performance against those metrics. One media company CEO, whose company has a CAGR of 42% per year over the last six years, attributes his success to empowering his managers to take risks. Each brand manager has a P&L for their brand, and that performance is measured against their peers. In addition to measuring performance and providing individual employee feedback, many successful companies, including the media company described above, have created incentive programs to reward those who have contributed to their companies' success. Rewarding their employees and encouraging them to take the initiative to make changes in their businesses can make a big impact on the company's flexibility. The Media Company CEO believed that "we are transparent and people are accountable because we motivate the managers with profit incentives."

Leaders in growth

In 2007, Oliver Wyman conducted in-depth interviews with over 75 mid-sized business leaders, five of which we identified as true leaders in growth. Their leaderships foster a culture that welcomes change, promote excellence and are focused and disciplined about the way they run their companies. In addition, they have made smart decisions about both their businesses and their information technology. All have invested in intricate, highly customized systems that are configured to meet their needs and have been able create a flexible business environment that enables them to reach their goals. (See case studies for more detail about "best-in-class" companies.)

One best-in-class company, a German manufacturer, has a standard bookkeeping system, but a highly customized, proprietary logistics system that took 8-15 programmers two and a half years to create. It is able to process orders on the day they are placed and make deliveries the next day, a speed of delivery that is their main competitive advantage. Their systems are highly automated and can react quickly to different tasks and can

move or replenish internal and external stock. They can even change the stock in the picking and packing areas overnight depending on the weather forecast. The CFO boasted that this system is “able to change everything necessary.” His investment in technology has paid off since the company has been growing steadily at 20% per year for five years.

Case Study 2: A “Best-in-Class” Company

Industry: **Technology**

Geography: **Based in the U.S., have staff in the UK, and global sales**

Employees: **245**

Growth Strategy: **Acquisitions and organic growth**

Annual Growth Rate: **184% per year over 4 years; 84% growth in 2006**

An American technology company may not be one of the largest companies in its industry, but it grew from a \$2 million company to a \$46 million over the past 3 years. The business has grown through acquisitions, but its CFO says that his most important goal going forward is organic growth. According to the CFO, the business is successful because they have high quality products and have been able to master a complex business model and standardize it for all of their customers around the world, eliminating the need to create an individualized business model for each country. By doing so, the company is able to manage best practices and workflows in all geographies and share company data around the globe. He attributes their flexibility to their business decision to focus on their core market and not expand beyond it, but his technology has also played a supporting role. The company started on homegrown systems but, recognizing that they had outgrown their infrastructure, later decided to implement an integrated business application suite as well as a custom internal order management system. The CFO said, “We decided to change the business process around the system rather than try to customize the system. We have held that mantra. Opening the code is complicated and expensive. I would rather change the business around best practices software.” They chose their IT system because, compared to the alternatives, they thought that it was best suited to grow with their business. It is fairly scalable and can incorporate new acquisitions without interrupting business flow. In addition, the CFO hired the former CIO from another prominent technology company to guide his business through the implementation, ensuring that best practices would be adopted.

The company’s CFO is quick to point out that his business and his IT aren’t perfect and that “we’re still in the improving stage of processes.” He said that it is difficult to train people to use the software, and claims that he would still like to improve his software’s reporting and collect more detailed business data. However, this company’s flexibility and constant drive to improve both its business and its technology have led to astounding financial gains.

By creating a complex, yet standardized business model that can accommodate customers around the world, a “best-in-class” Technology Company is able to manage best practices and share company data around the globe. The company’s CFO attributes their flexibility to their singular focus on their core business, but notes that technology has also played a supporting role. The company recently implemented an integrated business application suite as well as a custom internal order management system. The CFO also hired the former CIO of another technology company, who had been through similar implementations in the past, to lead the implementation for a year. This outside expert brought in “the

best practices in the industry,” allowing them to create an industry-specific focus in their technology that will be flexible yet specific to their needs. Now, the system is fairly scalable and can incorporate new acquisitions without interrupting business flow. The company’s CFO is quick to point out that “we’re still in the improving stage of processes,” but this company’s constant drive to improve both its business and its technology have led it go grow from a \$2 million company to a \$46 million company in 3 years.

These growth champions exhibit most of the key practices leading to success. They also use technology as an enabler of flexibility and adaptability.

Adaptability, flexibility and relationship with technology

Technology can make a huge impact on a company’s ability to execute its plans and make changes in the way its business is run. Whether companies are working with QuickBooks® and Microsoft® Excel® or full-scale integrated business applications suites from SAP, Oracle, or Microsoft, if companies can use their tools to their advantage, they can use them to make informed business decisions and execute these decisions in a disciplined manner. However, all IT systems need the proper configuration, the right amount of flexibility, and the proper corporate culture in order to perform to their full potential.

Mid-sized businesses and their IT infrastructure

Mid-sized businesses focus their energy on their businesses, not on their IT, so growth champions need fairly transparent IT systems—those that run smoothly in the background without hindering their businesses—to assist them in achieving their goals. They must be easy to implement, easy to use, and easy to modify but they must also be cost-effective so that mid-sized businesses can afford them. Based on the current market offerings, mid-sized businesses can be divided into two groups: those with

integrated enterprise application suites and those without them. According to the same 2006 study by Oliver Wyman, 63% of mid-sized businesses have integrated business applications suite systems. 43% of the mid-sized businesses in that group also have custom developed applications in addition to their integrated business applications suites. 17% of mid-sized businesses have no business applications software at all, and 20% have a wide variety of non-ERP software systems.⁶ For many companies, a full scale system is financially out of reach, so they choose to purchase an accounting or financial management system and then add to it with industry-specific software. One technology company CFO, who chose to implement an industry-specific application, explained, “We got a lot of functionality for what we paid...it was a good deal.” He elaborated that, even if he did have the money to implement an integrated business applications suite, he wouldn’t necessarily do it because the large business applications suite vendors do not understand his business. They, “think that everything is built the way that their businesses are built. Semiconductor companies have different needs.”

Companies that do not have integrated business application suites often face different challenges than those who do. While they are rarely mired in time-consuming, bureaucratic processes, they often lack the functionality that they need to make timely, informed business decisions. Many mid-sized businesses complained that they lack access to data, they do not have adequate reporting tools and are unable to calculate their financials in more than one currency. As one CFO of a services company without an integrated enterprise system explained, “we can’t get integrated analytics or data warehousing. We do it offline on Microsoft Excel spreadsheets. It’s a big hole for us.” Another services company CFO, who has a patchwork system of homegrown software coupled with applications from several software companies, complained that it is much more time consuming than he expected to integrate new acquisitions. “We are buying small companies who use different systems, and it has been hard to integrate our IT systems.”

Outgrowing your IT solutions

Despite their limitations, patchwork systems can give start-ups the springboard that they need to make informed business decisions. However, they often cannot sustain growing companies in the long term. A two year old manufacturing company that serves a high end niche market quickly realized that the cost of some of their parts was higher than expected due to the small size of their orders. The parts manufacturers would not negotiate on price, and the manufacturing company had to rework their cost estimates and their retail prices. “It was a pain, but it was possible to do that,” the CFO said. The CFO explained that, while manual processes worked in its earliest stages, the company will need to upgrade to an integrated business applications suite once its full line of products goes to market. “This is a short term solution,” he said. “We have no CRM but we will need it. In 12 months time, we will have a fully functional, integrated suite of [software] packages and CRM. Small companies have the same

needs as larger ones.” Even though the company doesn’t currently have a complete IT solution, its staff’s willingness to be flexible with the PC software at hand allowed the start-up to bring a product to market and start collecting the capital for a needed integrated enterprise application suite.

Mid-sized businesses with integrated enterprise application suites do have the functionality that other mid-sized businesses lack, but the software’s standardized processes can sometimes be too cumbersome or rigid for their needs.

Need for flexibility and adaptability

Implementing best practices into an integrated enterprise application suite and configuring it to allow a company to execute their plans with ease and discipline is integral to a company’s operations and its performance. Two companies, a technology company and a retailer, implemented the same financial management system, and had very different results. The technology company, a leader in growth mentioned above, implemented the financial management system but also built an internal order management system alongside it. By hiring the CIO of another technology company, who had led similar implementations in the past, this company ensured that best practices would be implemented and the system would be configured to suit their needs. In contrast, the retail company’s CFO, who implemented off-the-shelf systems for merchandising and point-of-sale data and had them completely integrated with his integrated business applications suite, has been frustrated with his IT systems. He says that even though his initial investment in technology was high, it still lacks the flexibility to meet his needs. His technology prevented him from being able to execute his carefully laid plans to introduce gift cards for the first time. Their software wouldn’t accept the gift cards, so they had to go back to the manufacturer to reconfigure the software. They were able to alter the software to accept the gift cards, but

it took six months, in what the CFO described as an “arduous task that was very very costly.” This CFO considers his corporate culture to be very fairly flexible and open to change, but it was his technology that compromised his sales. Unlike the growth leader that grew 84% in 2006, this company had nominal to flat revenue growth in 2006 and 2007.

Like the retail company mentioned above, most mid-sized businesses only test the limitations of their enterprise software when the need arises. Most say that their software could be flexible enough to handle change in their businesses but, like the retailer, they often find that it is not the case. The corporate controller of a biotech company said that, “Being able to respond to changes in the environment and demands on the business and make decisions quickly makes our company flexible. Part of that is having all the right information on a timely basis and provided correctly, and this relies directly on the IT infrastructure.” When spending time on business process changes, mid-sized businesses are paying not only for the cost of making such changes but also for any disruptions in their current business and the opportunity cost of not having made those changes sooner. Since speed is an integral part of a mid-sized company’s competitive advantage, their systems must be able to easily change at the moment when change becomes necessary.

In conclusion, mid-sized businesses need an IT solution that is flexible and fairly transparent, easy to implement and easy to modify so that they can focus on their business. As mid-sized businesses become more complex, many of the products on the market either lack the breadth or the flexibility to meet their needs, but building highly customized their software is extremely costly and time consuming, and is only worthwhile in particular markets or business environments. Unlike the best-in-class technology company, most mid-sized businesses do not have the resources to purchase elaborate enterprise software, build customized programs alongside it and hire experts to oversee the process. Thus, they end up either without an integrated business applications suite or like the retailer described above: with an expensive IT system that was difficult to implement, is impossible to modify without hiring expensive consultants and does not give them the transparency or flexibility that they need. For small and medium sized enterprises unable to devote their resources to customizing their IT, there has been a big offering gap in the market—integrated business applications suite or otherwise—that could offer them the functionality and adaptability of a comprehensive, flexible solution that caters to their particular needs and enables them to potentially achieve the performance of some of their best-in class peers. ❖

1 “Thinking Big: Mid-sized Companies and the Challenges of Growth,”
The Economist and Oliver Wyman mid-sized businesses interviews
2 “Designed to Grow” by Oliver Wyman, 2006. p. 1
3 “Designed to Grow” by Oliver Wyman, 2006. p. 1

4 Exhibit from “Designed to Grow” by Oliver Wyman, 2006. p. 15
5 Oliver Wyman Study 2006 for SAP p. 75
6 Oliver Wyman Study 2006 for SAP p. 16

About Oliver Wyman

Oliver Wyman is building the leading global management consultancy, combining deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm works with clients across a range of industries to deliver sustained shareholder value growth. We help managers to anticipate changes in customer priorities and the competitive environment, and then design their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities.

About SAP

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