



ACHIEVING EXPONENTIAL GROWTH

HOW TECHNOLOGY CAN SUPPORT THE SEVEN ESSENTIALS

To help you understand your markets and customers, business intelligence solutions let you analyze markets and segment them by opportunity, size, customer demographics, and growth rates. This way, you gain market insight and can focus your marketing activities to drive customer demand in those segments that have the highest potential.



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About the Author

This paper is based on *Blueprint to a Billion: 7 Essentials to Achieve Exponential Growth* by David G. Thomson.¹ Thomson has been leading business growth for 20 years in general management and executive sales and marketing at Nortel Networks and Hewlett-Packard. He also served as an associate principal at McKinsey & Company. Thomson graduated with an electrical engineering degree from the University of Waterloo and an MBA from the University of Western Ontario.

1. Thomson, David G., *Blueprint to a Billion: 7 Essentials to Achieve Exponential Growth*, John Wiley & Sons Inc., 2006.

THE BLUEPRINT FOR GROWTH

A LOOK AT PATTERNS OF SUCCESS

During the downdraft of the 2000 economic bubble, when the stock market collapsed and many management teams failed, thought leader David Thomson started asking himself the questions: How does one establish an exceptional growth business despite the odds against it? Is there an actionable blueprint to follow for success?

These questions are even more relevant with today's economic backdrop. To find answers to his questions, Thomson launched a multiyear study to identify the commonalities among America's highest-growth companies. *Blueprint to a Billion: 7 Essentials to Achieve Exponential Growth* offered the first quantitative identification of the success pattern of these consistently high-performing companies.

While just about all companies aspire to achieve exceptional, profitable growth, the real surprise is that of the 7,500 U.S. companies that went public between 1985 and 2007, only 5% have achieved US\$1 billion in revenue. That's only 387 companies. Yet these exceptional companies – Thomson calls them “blueprint companies” – account for a staggering 56% of employment and 64% of market value created by all companies that release an IPO in the United States.²

The disproportionate success of blueprint companies shows that they represent the heart of innovation and growth. These are the companies to work for and invest in. Their products and services enhance our everyday lives and propel the economy.

The indisputable fact is that only 5% of U.S. companies make it from IPO to \$1 billion in revenue and achieve exponential or compounding revenue growth. And while the elapsed time from founding to the point in which these blueprint companies “take off to a billion” can be highly variable, they

share similar growth paths. Once they reach \$50 million in revenue, they exhibit consistent exponential growth on one of three trajectories: taking either 4 years, 6 years, or 12 years to become a billion-dollar company, as illustrated in Figure 1.

Thomson found that over 90% of blueprint companies employed seven common management practices – “seven essentials” – as they grew from \$50 million to \$1 billion in revenue. Thomson also found that it was necessary to employ five or more of these seven essentials to achieve exceptional growth.

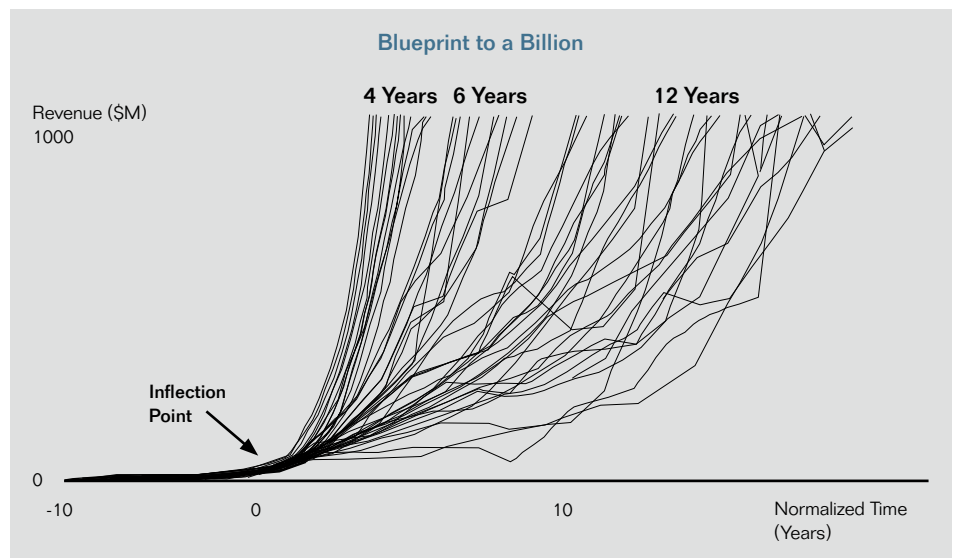


Figure 1: Exponential Growth after Companies Reach US\$50 Million in Revenue

2. Ibid.

Therefore, if your company is executing on fewer than five of these essentials, taking action on the underperforming essentials can turbocharge your company's growth prospects. Regardless of its size, your company can benefit from understanding the unique pattern of blueprint companies and applying the seven essentials to help propel company growth to the next level.

Essential 1: Create and Sustain a Breakthrough Value Proposition

Blueprint companies create exponential growth by delivering a breakthrough value proposition that clearly articulates the market they serve, their target customer, and compelling customer benefits. For blueprint companies, focusing on one of three basic value propositions is what generally leads to exponential growth. These value propositions are:

- **Creating a new market** – Companies that leverage innovation
- **Creating a product or service niche** – Companies that focus on customer experience
- **Optimizing an existing market** – Companies that leverage supply chain innovation

You can use business management solutions to help you focus on a unique value proposition, define your optimal market, attract targeted customers, and retain customer loyalty. For example, business intelligence (BI) solutions let you size up a market opportunity and identify trends by integrating external

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market data with internal market knowledge. They also allow you to constantly monitor and optimize your efficiency in serving your high-growth markets. Customer relationship management (CRM) solutions can help you find and serve your target customer, deploy new channels to reach new customers, penetrate underserved segments, and enter new markets.

Essential 2: Exploit a High-Growth Market Segment

It may seem counterintuitive, but most blueprint companies grow in mature markets, not by creating new markets. People often assume "mature" markets mean there is little opportunity for growth. But within these markets, the most successful companies exhibit clear market segmentation – and a culture of staying close to their customers, who fuel exponential growth. Successful companies understand their customers' unmet needs and create product-line extensions that support their core value proposition. Start with redefining a

potential billion-dollar market subsegment within a \$200 billion-per-year market. For example, companies can redefine subsegments within large, multibillion-dollar markets such as healthcare; life sciences; chemicals; utilities; engineering, construction, and operations; and consumer products.

To help you understand your markets and customers, BI solutions let you analyze markets and segment them by opportunity, size, customer demographics, and growth rates. This way, you gain market insight and can focus your marketing activities to drive customer demand in those segments that have the highest potential. With improved market insight, you can make more effective decisions faster. You can also generate and convert more leads, track opportunities more efficiently, and close more deals. You'll quickly be on your way to achieving exponential returns in profitable, high-growth segments – which is likely to earn you blueprint company status.

BLUEPRINT COMPANIES – THE HEART OF INNOVATION

GROWING IN MATURE MARKETS WITH SMART SEGMENTATION

Essential 3: Marquee Customers Shape Your Revenue Powerhouse

Blueprint companies are able to identify and grow their relationships with marquee customers – those regarded as leaders, innovators, or problem solvers within their industry. Marquee customers represent a subset of your customers that buy a lot of your products or services and spread the good news of your company to other prospects. By sharing their experience with your product in terms of benefits other customers relate to, marquee customers sell for you.

Companies that develop marquee customers strive to:

- Secure a beachhead with new customers or increase loyalty from existing ones
- Capture the mind of the customer
- Listen to the customer to shape their products and services
- Maximize customer lifecycle revenues

By identifying your potential marquee customers, CRM and BI products can help your sales force focus on the right set of customers (not necessarily just the largest ones) to grow your business. The solutions also help you keep your important customers happy and loyal.

You can track the time it takes to respond to their inquiries and requests or make your top customers the first to be offered special promotions or to be extended credit or delivery options. You can quickly adapt to customer needs, accelerate new products to market, improve customer loyalty, and increase wallet share. You'll close more sales with your marquee customers and find your team following in the financial footsteps of blueprint companies.

Essential 4: Leverage “Big Brother” Alliances to Break into New Markets

When a smaller company enters into an alliance with a larger company, an asymmetric “big brother–little brother” alliance is created. Successful companies on either side know how to benefit. For “big brothers,” these alliances can fill important capability gaps and provide much-needed flexibility, while smaller companies can increase credibility for their products and services or provide increased exposure through a valuable market channel.

An important element in the success of these relationships is a reliable supply chain – and behind every reliable supply chain are strong, healthy supplier rela-

tionships. To ensure that your supplier alliances are operating smoothly, BI solutions can help you understand your top-performing suppliers and partners and evaluate which partner programs have the greatest impact. For metrics tracking out of range, deeper analysis can help identify root causes of issues. The result: measurable improvements in service levels and productivity – which ultimately improve the performance of your partnerships and increase your ability to fulfill new market demands.

Essential 5: Become a Master of Exponential Returns

Companies that generate the greatest spread between the cost of capital and the return on invested capital create the highest market value. An interesting corollary also holds true: managers who generate high returns on deployed capital create a unique opportunity to reinvest in the most attractive growth areas in their business.

To achieve this essential of mastering exponential returns and establishing attractive growth margins, you need insight into your revenues and expenses. With the right accounting, financial, and business intelligence software, you can generate accurate, timely reports on your sales, general, and administration;



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R & D; and all the other revenue and expense components of your income statement. That insight can help you contain your expenses and maintain and grow your positive cash flow.

By using powerful software to integrate all financial transactions throughout your company, you'll always know where you stand in relation to your goal of exponential returns. And you can use dashboards to monitor metrics and address problem areas as early as possible. With timely insight into investment performance, you can rapidly respond to market or competitive pressures and change course in order to preserve high rates of return. Keeping a finger on the pulse of your returns to ensure maximum value helps you operate like a blueprint company.

Essential 6: Your Management Team – Inside-Outside Leadership

Leadership in blueprint companies often takes the form of a dynamic duo. This leadership team pairs an externally facing CEO who shapes the revenue-centric essentials with an internally focused COO who manages the operations and innovation-centric essentials. The most effective leadership teams foster the desired corporate culture by consistently communicating values and behaviors throughout the company. The ability to proactively explore – and quickly self-correct – corporate performance is key for these leaders.

Your leaders can use reporting, dashboards, and other business intelligence tools to accomplish self-correcting

corporate performance and fact-based decision making. For example, management teams can use preconfigured dashboards to monitor results for financial accounting, logistics, and customer relationship management. The best business intelligence solutions are designed to support ad hoc reporting, query, and analysis – so you can efficiently plan, measure, and control organizational processes and performance. The ability to generate crisp reports also makes it easier for your CEO to effectively convey essential company metrics to the outside world.

SETTING A PATH FOR THE FUTURE EVEN IN TODAY'S TOUGH ECONOMY

Essential 7: Your Board – Comprised of “Essentials Experts”

The boards of blueprint companies are heavily weighted with what Thomson calls “essentials experts”: alliance partners, customers, and other CEOs who have successfully grown a business and practiced blueprint company essentials. In contrast, Thomson found that companies with boards dominated by internal managers and investors tended to struggle in the long term. Balancing boards with essentials experts enables a company to navigate difficult economic times like today's and balance cash flow with strategic investments to support future growth. These experts are a much-valued extension of the company's business strategy and management team.

Your company's board will need timely access to information to be effective in supporting key strategic thrusts and propelling the company forward. To ensure accountability and consistency and help you improve performance, your board needs to focus on key metrics. Business intelligence solutions make it easier for executives and boards to connect metrics to goals and people.

With the dashboards, each employee and department head can view the metrics that are important to them in

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managing individual targets (such as sales by region, cost of sales, and margin). Those targets can then be rolled up across functional areas, departments, and business lines – giving your board members a high-level

view of your company's performance and making it easy for them to update goals or objectives. An active board, armed with timely performance data, is what you need to help keep track of the essentials, adjust your course, and set appropriate new goals.

The Bonus – Essential 8: Invest in Infrastructure

After releasing his book in 2006, Thomson worked with many SAP customers and prospects and identified another essential to exponential growth. The eighth essential describes the management technique, common in blueprint companies, of balancing profitability with investing in infrastructure, enabling companies to achieve sustainable exponential growth and returns. Whether you define infrastructure as talent, processes, or IT software and hardware systems, SAP can play a critical role in infrastructure development – no matter what your industry, size, or business model. In fact, 30% of the blueprint companies Thomson identified are already SAP customers.

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Establishing the Foundation for Exponential Growth

As Thomson identified during the economic downturn of 2001 and again during the current cycle, businesses navigating tough economic times will find the odds of failure far greater than those of success. Yet Thomson's research has shown that the few companies able to achieve exponential growth through up and down economic cycles – the ones that achieve consistent growth from \$1 million in revenue – can potentially grow to \$1 billion and then even \$10 billion. Thomson's research shows that they share traits independent of the size of the business: the combination of management techniques and the exponential growth pattern.

Whether or not your organization becomes a billion-dollar blueprint company, you can increase the odds for success by identifying and working on

the essentials that make companies great. In the process, you'll develop meaningful customer and supplier relationships, identify market opportunities, and help your management team and board be as effective as possible. To be in a position to adopt and execute these essentials, you need to have a proper infrastructure of talent, technology, and processes. To take full advantage of that infrastructure, you need insight from business intelligence and adaptive, supportive solutions such as those from SAP. With the right resources in place, your company will be able to create and sustain your breakthrough value proposition – and start mastering the exponential returns created by blueprint companies. Grow from a million to a billion and beyond.

For additional information, visit www.sap.com or www.blueprintgrowth.com.

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