Growth riders

Only 60 companies defied the odds and grew through every up and down over a 20-year period. How did they do it?

4 ways to keep growing (no matter what)

01. Increase cost agility
02. Detect early cost warnings
03. Reallocate from losers to winners
04. Encourage transformational bets

What companies are growth riders? Gartner conducted an in-depth study of financial data from Fortune 1000 and S&P 350 companies to identify those that grew margins and net revenue simultaneously over two decades. Here’s what these top companies did — and didn’t do — when compared to a control group of industry peers to achieve efficient growth.

Learn more: 1 866 913 8102 financeleaders@gartner.com gartner.com/go/finance

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01. Increase cost agility

The standard process for setting hurdle rates can inhibit growth.

When you don’t also adjust for risk:
- Finance pads hurdle rates to safeguard against projects that underdeliver
- Teams reverse-engineer their proposals’ internal rate of returns (IRRs) to meet requirements
- The company misses out on innovative ideas that might not meet the hurdle rate

A proposed project’s IRR accounts for:
- Time value of money
- Cost of equity and debt

Efficient growth companies take two steps to increase cost agility.

1. Stop announcing hurdle rates
2. Calculate a risk adjustment score as part of “proof of concept financing”

Increase cost agility by comparing risk-adjusted IRRs and funding the projects with the best chance of success.
02. Detect early cost warnings

Most companies don’t have a way to detect when costs are about to increase.

When projects are unfamiliar:
• The accuracy of standard forecasting models is uncertain
• The finance team feels uncomfortable and avoids acting on opportunities for growth

71% of companies are at risk of missing early cost warnings.

Efficient growth companies regularly measure cost headwinds and tailwinds.

• They accept higher degrees of uncertainty and a wider range of potential outcomes
• They define criteria for evaluating, reviewing and shutting down projects (e.g., SG&A costs, pricing, volume, productivity)

Detect early cost warnings and identify and respond to cost trends.
03.

Reallocate from losers to winners

Deciding to exit a business initiative can be hard, emotional and politicized.

Knowing when to pass or persist is difficult because you need to:
- Preserve resources and protect the brand
- Make sure promising projects aren’t killed prematurely

Only 15% of companies are ready now to reallocate funds from losing to winning projects.

Efficient growth companies reallocate funds from losers to winners when:
- They identify major strategic assumptions before launch to determine if the project is a good idea
- They identify indicators that signal the project should not proceed to the next stage
- They rely on defined exit criteria to reallocate funds from an underperforming project to an outperforming project

Define your exit triggers to make smart reallocation decisions.
04. Encourage transformational bets

Steering clear of risk — specifically radical investments — leaves money on the table.

Risk aversion by a senior management team can stifle growth.
- Even with an optimistic economic forecast, some executives hesitate to invest in growth because they fear the rapid inflation that a healthy labor market and rising cost of imported goods could bring.
- Many executives believe they’ll be forced to trade off hard-won efficiency to find growth, but in reality, they need to address the attitudes and systems that govern how they invest in growth.

Efficient growth companies follow a disciplined process for analyzing and enabling big bets when:
- They categorize growth investments in the project pipeline as transformational or iterative based on risk, upside potential and familiarity to similar projects.
- They ensure that transformational and iterative investments are tested, measured and managed differently.
- They fund investments according to the amount of available capital and the gap to the stated multiyear growth goal.

Don’t let risk aversion, red tape and short-termism hamper your growth: Encourage transformational bets.