

## **Beyond the Downturn: Pursuing a Growth Agenda**

By John Hansen

“Growth” is a word we read or hear about with increased frequency these days, both at the macro-economic level (i.e., in the context of the U.S. and many global [especially emerging market] economies) and the micro-economic level (looking at corporate revenues and earnings). Against the backdrop of a fledgling recovery from the most severe economic crisis in generations, this shouldn’t seem unusual. We all are anxious to return to days of greater prosperity: implementing cost- and people-cutting initiatives are much less gratifying than pursuing new business opportunities, uncovering and meeting new customer needs and/or hiring new employees and giving them challenging work to do. Moreover, for those of us in the financial services arena, thinking about growth is imperative in light of increased regulation and government intervention in fees and pricing, and changed financial attitudes and behaviors (e.g., distrust of certain financial institutions and markets; the increased frugality and decreased risk tolerance of the “new new” economy). We need to find new opportunities for profitable, sustainable growth.

Two other articles in this issue of *On Financial Services* present ideas on opportunities and growth from a payments and general banking perspective. This article tackles the issue of growth from a more generic perspective, highlighting ways to think about and uncover potential future growth opportunities. These themes in this article relate to:

- Competency-driven Growth
- Growth through Focus
- Growing During and After an Economic Downturn

### **Inside-Out Growth: Capabilities or Competency-driven Growth**

Much business thinking revolves around uncovering customer needs and finding ways to meet those needs in new or different ways. These could be referred to as “outside-in” strategies: starting with a group of potential customers, understanding their wants and needs, and either uncovering new needs or finding ways to address current needs in ways superior to how they are being addressed today.

Competency-driven growth attempts to understand the expertise, knowledge, skills, and tools or assets that the company possesses (some or all of which are ideally differentiated from other firms) and explores whether they can be exploited individually or collectively for new growth opportunities in the marketplace, be it in one’s core business or adjacent businesses.

Especially in tough markets, as we have been through and continue to experience, looking and focusing inward can provide the best road to success and growth.

### **Enterprise Growth Through Shrinking or Divestiture: The Value of Focus**

Another, perhaps counter-intuitive way, to support or generate growth and to do so smartly is to reduce or eliminate activities or even entire lines of business that detract from, or inhibit value creation. Areas

that might potentially be distractions and therefore negatively impact value creation can come in many forms:

- Lines of business, products or other pursuits that have not fulfilled their promise in terms of growth, profitability, return on investment or any other financial or key business measures. Especially in downturns, access to capital can become scarce. Management needs to assess use of that scarce capital and, for underperforming businesses or business units, be brutally honest about whether the prospects going forward are likely to change, whether there are better uses of capital and/or whether additional capital can be freed up by divesting a business line or unit (see next section of this article)
- Businesses that are performing adequately but that can be performed better by others (and for which we might get some compensation from a buyer who can unleash and realize that hidden value). Even though you may be performing adequately in a business, if others can do it better there is an opportunity to capture additional value by selling the business to others
- Activities that are not part of your core business, either based on the way you and your management team think about it or, more importantly, the way customers think about the business in which you play and how they make purchases in that business
- Other non-strategic activities that take an inordinate amount of management time to oversee relative to their size or potential

To be sure, these are merely some examples of distractions that might be keeping your company or business from performing better in larger or more important areas (e.g., in your core business). An honest evaluation of your enterprise's business portfolio may uncover business operations that – if curtailed or sold – would free up valuable management time. It could also free up human and financial resources to allow deployment against areas where competitive positions can be strengthened (or defensive hedges deployed), new product lines can be created or old ones extended, or investments can be made to increase business capabilities, customer sales or service models or the like. Shrinking or curtailing one set of distracting business operations can unleash new opportunities in other areas. In other words: shrink to grow.

### **Growth in Times of Economic Slowdown**

Economic downturns themselves also provide insight into potential avenues of growth. Growth ideas arising from economic downturns come in several flavors:

- Identifying and riding trends (especially those that are independent of the economic environment)
- Capitalizing on the weakness of second- and third-tier competitors
- Rethinking product and value

The article on the Consumer Payments Preferences study appearing in this edition of *On Financial Services* describes the expected tsunami of the Millennial Generation and how that demographic group

might create and influence opportunities in payments going forward. This serves as one example for identifying growth opportunities -- identifying trends (demographic or other) that have their own momentum. In particular, trends that are independent of the economic environment and virtually certain/unstoppable (like many demographic trends, especially those related to age) are particularly valuable to mine for opportunities in economic slowdowns. Expending effort on moving beyond the headlined trends to more hidden or subtle trends, or trends in your own customer base, can uncover growth opportunities that are potentially below the radar screens of competitors and therefore provide exceptional promise (especially if the relevant market is of sufficient size).

Economic downturns often impact second- and third-tier competitors much more than the leaders in an economic space. Think of this as representing a customer flight to safety. Weakened competitors present growth opportunities for those who are stronger and can continue to invest in their business during a down cycle. Additionally, an opportunity to acquire weaker players at discounts provides another way to capitalize during an economic downturn. Empirical research indicates that companies acquired during a downturn often provide a better return on capital than those acquired during economic cycles that are more normal or booming. The acquirer may receive the benefit not only of purchasing a company at a discount relative to its prior valuation, but may also receive the benefit of improved efficiency and, as the economy recovers, improved growth.

We often hear discussion on the street and in our clients' offices that a "new new" economy is upon us: how customers will be impacted long term and continue to be focused on thrift and value. Whether or not this is a temporary or longer-term trend, companies would be wise to assess their current product offerings and either look to reduce features that are undifferentiating or do not add significant value to target customers and/or to look at offering a value-oriented product to current offerings to round out the portfolio.

This article has attempted to complement the other two articles in this issue of *On Financial Services*. All three articles take a look at where banks or other financial services providers might look to uncover opportunities, rekindle growth and ultimately build shareholder value. We hope that these various perspectives provide some food for thought as you and your institution plan for growth this year and in the years ahead.

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