Select Strategies
Making Growth Happen

The Growth Gap
Research Findings

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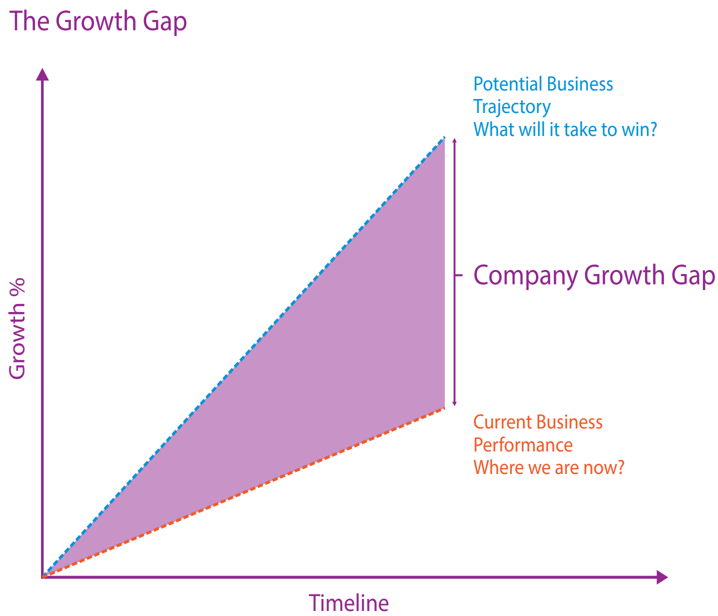
Introduction

Research shows that high growth firms play an important role in job creation, innovation and creating wealth in communities. However, only a small proportion of companies achieve high growth or scale up* (see definition) and maintain this over time.

Promising companies have international ambitions, have good customers and have secured investment. Yet, there is a significant gap between the companies performance and the expectations of the team and investors. We call this 'The Growth Gap'.

Whilst there are many studies on high growth firms, most studies are at a macro level. In this research we sought to go deeper into a more micro level to understand how specific market, product, leadership and performance issues affect 'The Growth Gap.'

The 'Growth %' can be applied to the most appropriate performance metric, e.g. revenue, market share, profit etc.



High-level Approach

To deepen our understanding of the growth gap we surveyed the leadership teams of over 120 growth firms. We tried to understand 'The Growth Gap' in the context of Market, Product, Leadership and Performance as described below:

Market

The Market section addresses size of market, and whether the right people are focused on selling efficiently to the right sweet spot. It also seeks to understand whether the team is focused on trying to solve compelling customer problems and their ability to communicate the value they are delivering.

Product

The Product section addresses the external environment and ability to beat the competition. It also addresses how actively the leadership team encourages innovation and invests in processes, which enable the business to scale.

Leadership

The Leadership section addresses shared vision, ambition, company structure and skills. It also addresses leadership, mindset, behaviours and capability. In addition it seeks to understand the level of internal collaboration.

Performance

The Performance section addresses shareholder expectation and track record in meeting financial goals. It also seeks to understand current levels of growth planning and how business assumptions are challenged. In addition it seeks perceptions on sales and marketing.

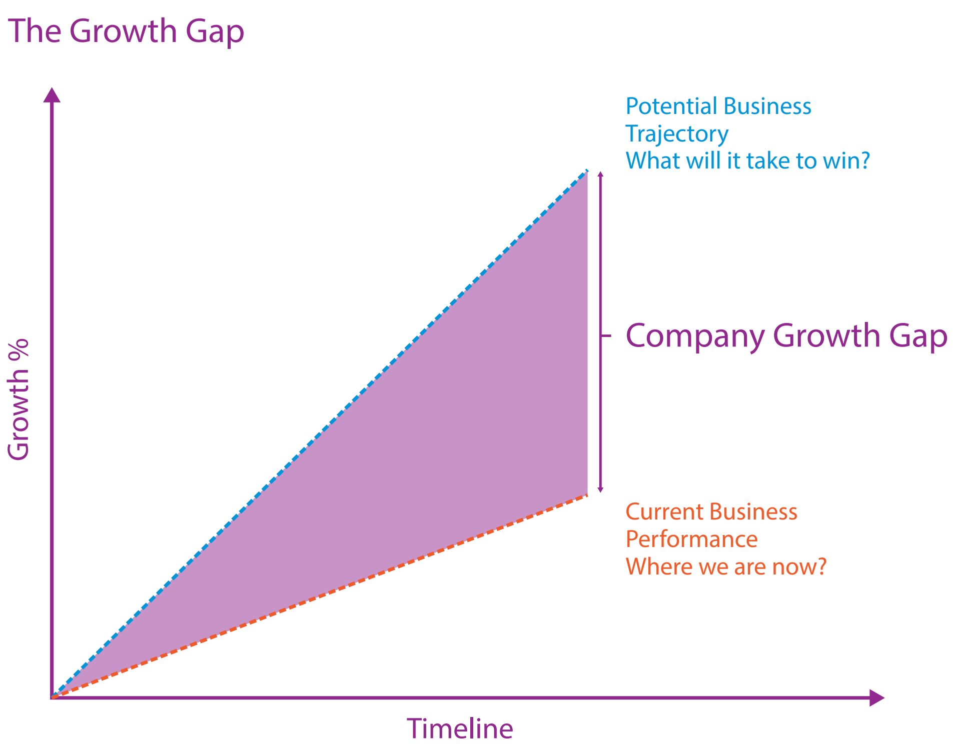
The Growth Gap - Summary

The high level finding was that 87% of companies felt that they were in big and growing markets, indicating the capacity for faster growth. Yet only 41% reported that shareholders were satisfied with growth rates and performance.

We called this gap between potential business trajectory and current performance the 'growth gap'. We explored and investigated the growth gap under four company areas: Market, Product, Leadership and Performance.

The underlying reasons for the growth gap are dependent on each individual company situation, however clear patterns emerge with actionable insights.

From our research findings and deeper engagement with companies, we strongly believe that there is considerable potential for closing the growth gap and enabling growth firms to scale successfully.



87% of companies feel that they are in big and growing markets... yet only 41% report that shareholders are satisfied with growth rates and performance

The Growth Gap - Summary

High growth firms play an important role in job creation and bringing new innovations to market. However only a small percentage of startups actually scale up and maintain high growth overtime (see ScaleUp Institute Report).

Many startups and companies stall at a particular size and don't realize their potential. We call the gap between a company's potential performance and its actual performance the 'growth gap'. The reasons behind this growth gap are different in different companies. The causes may be market, product, leadership or performance related – often due to assumptions that the founders made at the outset or during planning. Entrepreneurial ventures have a high degree of uncertainty, so inevitably many assumptions don't work out as predicted.

Often the growth gap occurs for companies when they have reached a particular size of employees e.g. 20 to 50. At this size many founders who have led the company to this stage find it more challenging to scale up to the next level. This stage sometimes called the 'entrepreneurial crisis' (Greiner 1972) is also symptomatic of the growth gap. It often involves the requirement for the founder (s) to evolve from domain specialists (e.g. sales, finance or technical) into a more managerial or leadership role. Some don't embrace the more people- oriented aspects of the role they need to evolve into. Others may resist changing the single- minded focus that got them to this stage – they may not listen and reject alternative approaches.

For example, a strong technical founder may have built a good product and won early customers, but finds it difficult to scale up sales and marketing. The sales and marketing scaling challenge may be due to a combination of factors, whether that's lack of process, capability or indeed funding to acquire the right resource.

In our daily interactions with growth firms, we see first-hand the specific actions, behaviours and capabilities that firms adopt that either cause the growth gap or accelerate scale. Many of these are documented in the survey results that follow later in this report.

Outside investors can often accelerate some of the required changes. For example, improved financial disciplines and rigor can bring new insights and realism to the founder team. A good Board will have insight from many growth journeys and may be able to encourage or insist on key hires to the leadership team.

Also, there is no clear sequence to tackling the growth gap. In some instances, it may be better to tackle product or team related issues, before sales. The sequence is generally situationally dependent.

The Growth Gap - Recommendation

The growth gap occurs in most ambitious companies at some stage along their growth journey. Tackling only symptoms e.g. just 'tackling the sales problem', may not be enough to circumvent a potential growth crisis. There are often interdependencies between market, sales product and team that require a more systematic approach.

This systematic approach requires three elements to improve the odds of success:

1. Diagnose to uncover root causes & discover new actionable insights
2. Develop a roadmap or strategy to tackle the root causes and chart a way forward
3. Deliver results through execution of the roadmap, including required capability building

This systematic scaling approach requires a continuous approach, at regular intervalsto revitalise the company and bridge the growth gap and make the transition to the next phase of growth.

Some founder teams may resist the idea of taking this structured approach. It may limit their freedom. It frequently requires an outside force (Customers or Board) or event (like investment) to accelerate the adoption of this systematic approach to scaling and closing the growth gap.

Founder teams who take this approach in a disciplined way will find it easier to close the growth gap and scale successfully.

The Growth Gap Research Findings

Background

The background research for this consisted of understanding the reasons for the gap between a companies's current and potential performance.

Over a five year period (between 2014 and 2019), the CEOs and senior leadership teams of over 120 companies completed our growth diagnostic survey. There were in the region of 500 senior team participants in total. This involved the CEO and team rating themselves on 48 quantitative statements, using a Likert Scale, and also providing qualitative responses to a set of open questions relating to performance.

All responses were treated confidentially and results for each individual company were aggregated. The extended period of time for the survey research (5 years) should remove economic uncertaintly and sentiment somewhat from the responses.

Profile of Companies Researched

The indigenous Irish firms we researched and worked with typically had revenues of between €2.5m and €100m. All had between 20 and 250 employees. Each was innovation driven, either with a novel business model or technology. All had average turnover growth greater than 20% per annum over a three year period. Each had stated international growth ambitions, with customers in multiple geographies.

Participant companies ranged across a number of sectors and industries; and included both product and service examples. They were typically founder led, often investor backed, and some were family businesses. The participant company stage of development and team capability varied significantly.

The OECD defines high-growth as "All enterprises with average annualised growth greater than 20% per annum, over a three year period'. We broadly used this definition when selecting our sample group for this research.

The Growth Gap Research Key Findings

The Four Key Findings across Market, Product, Leadership and Performance are:

Market

- Only 53% believe that prospects understand the value they deliver without face-to-face contact.

Product

- 63% of respondents stated that they have a clearly defined product roadmap, but only 49% felt that it had been clearly communicated to all staff.

Leadership

- 63% of respondents believe that their CEOs have clear and ambitious goals in place. Yet a much lower percentage 52% reported a regular review process for growth plans.

Performance

- Just over 51% report that they do have a repeatable set of steps to win new customers - no surprise then, that only 53% are meeting sales forecasts.

The Growth Gap Research Findings - Market

1. Market potential is generally big but lack of disciplined segmentation and compelling value propositions are contributing to the growth gap.

- Companies are not held back by a lack of market opportunities - 87% stated that their chosen market is big and growing and sufficient to meet their growth ambitions.
- Many struggle to find their sweet spot customer profile - 65% responded that they had a clearly defined profile of their ideal customer but a much smaller number felt they focused on this sweet spot – many reported time wasted trying to win or service customers who were a 'bad fit'. Analysis of this 'bad fit' revealed that ultimately companies lost money on these customers but held onto them for the ready cash they contributed.
- Lack of sweet spot clarity results in fewer qualified sales leads - only 47% of respondents are generating enough qualified sales leads. This lack of sales leads is often due to a capability gap, that respondents reported as falling somewhere between marketing, the emerging sales operations function and sales people themselves.
- Companies provide valuable offerings to customers but struggle to effectively communicate the value they deliver. Only 53% believe that prospects understand the value they deliver without face-to-face contact. Given that today's buyer is typically well-informed and buying online, the lack of clear value propositions contributes to the growth gap.
- Lack of a clearly defined market strategy contributes to the challenge of trying to grow in multiple markets - in response to the question – 'What has held back company growth in the past?' - many respondents stated that the lack of a clearly stated market strategy contributed to a slowing down of business velocity and made scaling more complex.

Only 53% believe that prospects understand the value they deliver without face-to-face contact

The Growth Gap Research Findings - Product

2. Product - many growth companies could do a better job at communicating their difference and delivering on their product roadmaps.

- 75% of companies surveyed believe that customers care deeply about what separates them from the competition. However, many find it difficult to communicate what makes their offering stand out. Yet being recognised as 'trusted experts' in their chosen market was mentioned by 71% of respondents.
- Management teams recognise the difference between growth and scale. About 40% asserted that they had plans underway to implement the right processes at the right time. However, a consistent theme in the qualitative responses was that entrepreneurial approaches of the founder team often took priority over more scalable and repeatable approaches.
- 63% of respondents stated that they have a clearly defined product roadmap, but only 49% felt that it had been clearly communicated to all staff. In addition, the qualitative participant responses suggested that silos often exist between marketing, sales and delivery teams.
- 61% of companies stated that their products and services were partner-ready, indicating that many have more potential to leverage partners as a route to growth.
- 60% of companies assert that they have repeatable processes enabling them to scale. However, our observation is that many companies would grow much faster by implementing scalable processes earlier.

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The Growth Gap Research Findings - Leadership

3. Leadership teams of growth firms are trusting places but capability gaps and a lack of the right behaviours to scale contribute to the growth gap.

- Companies trust their leadership teams - 75% of teams stated that they have a high degree of trust in the team, a key factor in making growth happen.
- Leadership teams often lack a concrete strategy to identify and achieve their goals - 63% of respondents believe that their CEOs have clear and ambitious goals in place. Yet a much lower percentage 52% reported a regular review process for growth plans.
- Leadership teams feel they the right capabilities but need additional senior hires - 66% of participant companies felt they had the right structure to support their growth plans.
- In response to the question 'what has held the company back in the past?' many respondents reported lack of senior leadership talent in key roles, particularly internationally. Only 61% reported having a proven hiring process to recruit the best talent.
- Many respondents mentioned the need for the leadership team to spend more time on people and organisational development.

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The Growth Gap Research Findings - Performance

4. Performance is often below expectations and this is due to a lack of repeatable steps to win new customers.

- Performance is frequently not meeting expectations – statistically companies perform below par on this section of the survey - only 59% of companies stating that shareholders were satisfied with growth rates. Similarly, 55% asserted that their company did not have the funds to implement their growth plans.
- Just over half (51%) report that they do have a repeatable set of steps to win new customers – no surprise then, that only 53% are meeting sales forecasts. Many participants highlighted the need to build stronger sales capability.
- 60% challenge the key assumptions in the business and 66% have a set of key metrics that measure progress. However, only 55% report that all employees understand their financial model.
- 59% of survey participants claim that they are good at follow-on sales to existing customers. This augers well for scaling, but it is likely more can be done.
- Improved communication was reported very frequently by respondents to the question – 'How could the performance of the company improve?' - many cited lack of role clarity and wanting to understand more about what was happening in other company areas.

Just over 51% report that they do have a repeatable set of steps to win new customers - no surprise then, that only 53% are meeting sales forecasts

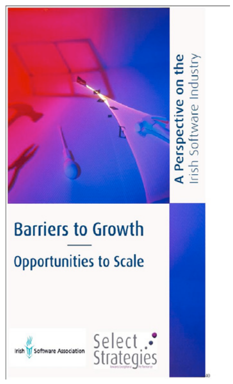
Previous Research Insights

This report is part of our commitment to research in seeking insights into how to help indigenous companies scale. A selection of previous reports and publications are below:

New Approaches to Growth (2012)
The speed of launching new products, the approaches to acquiring customers and the metrics used to measure success are constantly changing. While many of the challenges to building a technology company remain constant - the approaches to addressing these challenges are changing radically. In this report we examine five key areas where these new approaches are happening: 1. Ways of building products, 2.Size of markets being competed in, 3.Finding product/market fit, 4.Establishing measurable customer value & 5.Change in approaches to customer acquisition.

Mapping the Product Management Minefield (2008)
Product Management strategy is a CEO issue. Until it becomes part of our CEOs DNA, many companies will flounder. There needs to be a radical improvement in the Product Management capability of Irish software companies if their scale ambitions are to be realised. Best practice tells us that scale in product companies only takes place when world class Product Management is in place. Product Management capability in Ireland is limited, resulting in missed opportunities, barriers to scale and wasted R&D.

Barriers to Growth, Opportunities to Scale (2005)
With the increasing globalisation in the technology sector, companies need to be of a significant size to survive. The Irish indigenous software sector is fragile - as the survey results make clear. To achieve a viable, self-sustaining and vibrant software sector, we need to achieve critical mass, not just in employee numbers or revenue, but in the number of companies that themselves are of significant size in a global context.



See www.selectstrategies.com for a more complete list of publications.

Select Strategies Story

We are passionate about working with business leaders to make growth happen. We believe in growth. It creates new jobs for communities. It can transform ordinary companies into great ones. Transformational growth unlocks individual potential and creates shareholder wealth.

Select Strategies was founded in 2000 to help ambitious leadership teams shape strategies for scale. We had witnessed too many companies not reach their potential, resulting in disappointed founders and investors. We believed there was a better way.

Everyone at Select Strategies has a track record of growing businesses themselves. We have experienced first-hand how difficult it was to select and execute the right strategies for growth.

The authors in this report Paul O'Dea and Emer O'Donnell are authors of the soon to be released book 'The Growth Roadmap®' - how ambitious companies scale successfully.

Paul O'Dea is Founder and Managing Director of Select Strategies. He has co-founded and scaled several technology businesses. Paul is a trusted advisor to CEOs and leadership teams, who have ambitions to scale. He serves on the Boards of a number of investor backed businesses. Paul has also been a guest speaker at University of Cambridge and Stanford University. He has delivered numerous keynote speeches internationally.

A Director of Select Strategies, Emer O'Donnell is a specialist in senior leadership team dynamics and how they can be leveraged to accelerate change and improve business performance. Emer has deep practical knowledge of overcoming scaling challenges. She is an EMCC accredited business coach who has been invited to work with client senior teams, both domestically and internationally, to help deliver international growth.