WHEN GROWTH STALLS

HOW IT HAPPENS, WHY YOU'RE STUCK & WHAT TO DO ABOUT IT

STEVE McKEE

More Praise for *When Growth Stalls*

"This is a must-read for all business leaders. Steve McKee offers real-world examples and insight into why growth stalls, and tells how to overcome the pitfalls that cause it. I couldn't put this book down."

—Todd Parent, founder and CEO, Extreme Pizza

"Steve McKee brings focused insights and keen observations to bear against a business leader's greatest fear. *When Growth Stalls* is the field manual for those facing the challenge of getting things back on track."

—Tom McLoughlin, vice president of marketing, The Scotts Miracle-Gro Company

"Any business leader planning on sustaining growth for the long term should read this book. It's inevitable that you will experience stalled growth at some point, and this book, based on the author's own experience, provides a realistic approach to overcoming it."

—Jamie Chilcoff, president and CEO, FiberTech Polymers

"Business stalled? Steve McKee feels your pain because he's been there. McKee lays out well-researched reasons why companies stall—and how you can get yours out of its funk. Written from his heart, it'll lift your soul and your bottom line."

—Tory Johnson, CEO, Women For Hire

"If your company growth has stalled or if you want to grow faster, this book is the fastest way to find enlightenment."

—Mike Faith, CEO and president, Headsets.com, Inc.

"For any executive or business leader, the timing of *When Growth Stalls* couldn't be more perfect. McKee provides specific strategies, examples, and ideas for improving and maintaining growth, especially in turbulent times."

—Tina Sampson, vice president of sales and marketing, Gaylord National Resort and Convention Center

"Steve McKee has effectively woven years of research into his personal experience, making *When Growth Stalls* a compelling read, particularly in challenging economic times. We're all worried about stalling out and I finished the book re-charged and fueled with solid information to drive my business's growth."

—Mark Vengroff, CEO, Vengroff, Williams & Associates, Inc.

"By using real-world examples of businesses facing the challenge of stalled growth, McKee makes his principles easy to understand and entertaining for the reader. A particularly timely guide for executives, managers, and entrepreneurs."

—Ethan Ewing, president, Bills.com

"*When Growth Stalls* is a practical presentation of how marketing-based management principles can contribute to enduring growth. A quick and entertaining read, it cuts through the complexity to focus on solutions and help accelerate the time to renewed growth."

—Ian Davison, marketing director, Detour Bars

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To Denise. Forever.

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Introduction

> I'm always looking for profitable growth on a sustained basis. That's I think the hardest challenge in business—to not do it just once, but year after year.[1]
>
> —*Bruce Carbonari, CEO, Fortune Brands*

One of the toughest lessons every business leader learns is how difficult it is to generate consistent growth. There is always something—or someone—that threatens even the healthiest business model. As a result, stalled growth is the rule, not the exception, even for the best-managed companies.

That's especially true in unpredictable economic environments, when circumstances beyond their control catch business leaders off guard. How they respond to those circumstances makes a big difference to their companies' future prospects.

This book is about generating growth for your company at a time when growth may be nothing but a glimmer of hope in your mind. It offers, first of all, perspective on the external market forces that hinder growth in every organization. It goes on to expose the destructive dynamics that are likely playing out within your company (and of which you may be unaware). Then it offers a set of core principles that can help set you back on the growth path—not a secret formula but a proven pattern that you can apply to your own unique circumstances.

Stalled growth is a phenomenon I've witnessed time and time again over the course of a career spanning more than two decades in the advertising industry. My company, McKee Wallwork Cleveland, is less an advertising agency than it is a consulting firm, and we've built our reputation not by simply making and placing ads but by diagnosing and addressing our clients' most difficult marketing challenges. Sometimes the solutions involve advertising, and sometimes they don't.

Working with clients of all shapes and sizes—and in a variety of industries—has given us a unique perspective on the challenges facing companies that are struggling, stalled, and simply stuck. But it wasn't until we went through a growth crisis of our own and subsequently embarked on a five-year journey of research and discovery that the patterns that are the subject of this book came alive.

When Growth Stalls is the culmination of a journey that for me began in 2003, when after five years of breathtaking growth my firm suddenly and shockingly stalled. The reasons weren't clear, and at first we assumed it was just a blip on our stellar run of continuous revenue increases. But through two painful years of trial and error, we discovered that all of the skills, enthusiasm, and expertise we had were not enough to restart our growth engine.

A funny thing happened, however, on our way downhill. Through our conversations with other companies in similar straits, we discovered that we were not alone. In fact, we had a great deal in common with them. That gave us a hunch that perhaps we could study the problem of stalled growth from a position of objectivity and uncover principles that would get us back on track.

We commissioned two nationwide quantitative studies—the first in 2003, and a second, deeper dive as the mortgage meltdown led to the credit crunch and global economic crisis in 2008—to explore the dynamics that fuel growth, understand the characteristics that cause it to stall, and shed light on the reasons why some companies stay down longer than others. We interviewed CEOs of major corporations and entrepreneurs of every stripe to gain further insight and breathe life into our findings.

We tested the patterns we identified by sharing them with thousands of business leaders facing widely divergent business circumstances in industries as diverse as retail, manufacturing, health care, education, technology, travel, and professional services. And we began applying the principles to our own growth challenges and those of our clients. That gave us a first-person understanding of the impact their applications can have.

Our research has turned our understanding of stalled growth—and our approach to turning it around—literally inside out. We have found that regardless of what's happening outside an enterprise, it's what's inside that counts.

I first began sharing what we learned in an eight-part series for *BusinessWeek.com*. That led to invitations to speak before civic groups, industry trade associations, and corporate retreats. As I shared these principles with group after group, I saw heads nodding in agreement when I described what was happening within their companies without ever having set foot in them. Before I knew it, the message began taking on a life of its own, and I realized we had hit a nerve. There was a bigger story here, and it needed to be told.

Sluggish growth is generally produced not by mismanagement or strategic blundering but by natural market forces and management dynamics that are widespread, often unrecognized, and highly destructive. And there are seven characteristics that are most commonly to blame.

Three may not be surprising. They are external forces to which countless companies have fallen victim: economic upheavals, aggressive competition, and changing industry dynamics. What was so fascinating to learn, however, is how often they catch company leaders off guard. These factors do a lot of damage simply by going unrecognized for too long.

More surprising are four subtle and highly destructive internal factors that conspire to keep companies down: lack of consensus among the management team, loss of focus, loss of nerve, and marketing inconsistency. All four are psychological, all are capable of ruining companies from the inside out, and all are preventable—*if* you know what to look for. We found that most struggling companies suffer from some combination of these seven factors.

If your company is currently struggling, *When Growth Stalls* may be just what you need to shake things up. It will cut through some of the confusion and doubt that may be cluttering your mind and will help you recognize that the challenges you're facing are neither unique nor insurmountable. For those whose growth picture looks rosy—for the time being—gaining a better understanding of the dangerous dynamics *every* company eventually faces may be just what you need to avoid the growth meltdown waiting around the corner.

My company had to learn these lessons the hard way. It is my hope that the insights shared on the following pages will be as valuable to you as they have been to me.

When Growth Stalls

1

It's Not Just Business, It's Personal

A lush green jewel of the southern California desert, Rancho Mirage is a beautiful place, but it's not easy to reach. After a smooth and uneventful flight via jumbo jet to Phoenix, my wife and I caught a connection on an old propeller plane that would take us across the Mojave desert into the Palm Springs airport, where a shuttle would take us to the resort where we were staying. Unfortunately, it was a warm springtime afternoon, and the thermals caused our slow, small aircraft to shake and shudder all the way there. The plane landed long before our stomachs did.

The bumpy ride was an apt metaphor. As president of McKee Wallwork Cleveland Advertising, I was heading to the annual Inc. 500 Conference to take a bow on behalf of the company, which had been recognized as one of the fastest-growing private businesses in America. It was quite an honor. The award is based on growth achieved over the course of not just one year but five years. A company can't make the list based on a single big win or one hot season; it has to demonstrate growth *and* sustainability. And we had, at least for now.

I had been in the advertising business for just over a decade when we launched the company. My career had been a whirlwind to that point. I had worked at four different agencies, including a giant multinational, a creative hot shop, and a closely held boutique. I'd climbed a steep learning curve, using each opportunity to broaden my knowledge and deepen my understanding of the advertising industry.

Not that it was easy. During my first few months in the business, I would sit in meetings and pray that no one would call on me because I didn't know what they were talking about. Whenever I heard unfamiliar jargon (which happened a lot), I would surreptitiously jot it down in my notebook so I could look it up when I got home that night.

Within about a year, I started feeling comfortable, in part because I'd been studying my field in every way possible. I read *Adweek* and *Advertising Age* cover to cover each week and picked up every marketing book I could find. I paid rapt attention to high-profile advertising campaigns in the marketplace and noted how well they worked (or didn't). I started working backward from ads I saw, challenging myself to figure out the strategy behind them and to try to imagine a better execution. And I began a game inside my head of predicting which campaigns would succeed and which would fail based on what I knew about marketing and consumer behavior. (Call it "fantasy marketing," an ad geek's version of the fantasy football millions of fans play with imaginary team rosters.) More often than not, my guesses proved right, and with each confirmation, my self-confidence grew.

After ten fast-paced years, I'd risen to the position of president at a well-respected regional agency. When my proposed buyout of the firm fell through, I figured I was good enough to strike out on my own. After all, I had been a key contributor to strategies that made a lot of companies successful. Now I wanted to do it for myself.

And the best part was that I wouldn't have to do it alone. Pat Wallwork, a talented Procter & Gamble veteran and media director at the agency where I had previously been president, resigned shortly after I did. She, too, thought she had what it took to make a go of it as an agency principal. Both of us, we later found out, were advised by friends that partnerships rarely work, but we had a gut feeling about each other. So we put together a business plan, rented an office in our hometown of Albuquerque, and launched McKee Wallwork Advertising.

As anyone who has started a company knows, in the early days you have to wear a lot of hats. In addition to her role as media director, Pat did the accounting, and I handled sales as well as account management and creative development. Pat's a morning person and would get to the office as early as 6 or 7AM; as a night person, I would often stay past eight o'clock. We joked that as long as we didn't go to the bathroom at the same time, there would always be someone there to answer the phone. We're both focused, intense people, and we had the added incentive of being in debt with no income. So we put our heads down and went to work.

We immediately picked up a few project accounts; not enough to pay the bills, but enough to give us encouragement and make us feel like we were a real business. Within a couple of months, we landed our first real client and hired our first employee. Then things took off.

We started growing quickly, adding clients and staff, and managing our money conservatively so that we wouldn't have to tap the line of credit we had negotiated with our bank. Five years later, we came up for air and found that we had become one of America's fastest-growing companies. Our initial instincts were correct: we knew what we were doing, we'd built a strong partnership, and we'd made it through the challenging startup phase. Sure, there were bumps along the way, but overall those first five years had been a fast and smooth ride.

But in the months leading up to the Inc. 500 Conference, things started to get bumpier. There was no clear reason for it. Our clients were happy, the economy was stable, and we'd maintained our book of business. Still, our growth had slowed, and it concerned me.

What I didn't realize then was that the uneasiness I was feeling was an early symptom of a more serious problem happening to the firm. Over the next two years, I would gain a deep understanding of the confusion and frustration so many corporate leaders feel when their growth begins to stall. As it turned out, our company's struggle would lead to the research that served as the foundation for this book. It would also make our firm more effective for—and more empathetic to—the struggling clients who now come to us for answers to their growth problems.

At the time, however, I couldn't see any of that coming. All I knew was that I felt odd receiving the plaudits at Rancho Mirage, glad-handing leaders of the nation's most successful companies while wondering whether I had something to hide. Had we made a mistake? Why was this happening to us now? Are we just pretenders? Questions like these nagged me throughout the course of the conference, taking the shine off what should have been a gratifying celebration. But I couldn't help it. I felt like we didn't belong, that maybe our appearance on the list was a mistake.

I didn't know it at the time, but our growth problems would continue throughout the rest of that year. After five years of rapid growth, we ended the year with revenues down nearly 6 percent. We lost a quarter of our staff. And the following year was worse: sales declined another 16 percent, and employee turnover shot up to 67 percent. As a company whose business model was predicated on helping other companies grow, not having our own house in order was, frankly, embarrassing.

What happened?

I now know that it was nothing unusual. Even the best-managed companies experience growth problems that can be mystifying to those on the inside. But at the time, it was ulcer-inducing. I thought we must have really done something wrong.

Companies are interesting social organisms. No matter what kind of face you put on, when something is amiss, everybody can sense it. We had assembled a terrific team and arm in arm set about to conquer the world of advertising, and as things began to slow, our positive psychological momentum continued for a while. But slowly, noticeably, as our growth started running out of gas, I began to see doubt in our employees' eyes. They started to wonder whether all of the promise they had seen early on was anything more than that. They started to worry about their paychecks. That made me even more anxious—and more determined to figure out what ailed our company.

My colleagues and I boiled the challenge down to one simple question: Why would a prospective client look past all the established, reputable agencies on the East and West coasts in favor of a boutique in the emerging Southwest? If we could answer that, we could rekindle the growth to which we had become accustomed.

We'd found that we had done our best work when we could report to decision makers with real skin in the game, who had vision and guts, and who, like us, were thinking about conquering the world rather than simply advancing their own career paths. We saw the benefits of working with companies whose marketing budgets were increasing and whose appetite for risk would enable us to break new ground. We knew we weren't yet getting noticed by brands that were the household names of today, so we had an idea: Why not link up with those that would be the household names of tomorrow? Why not target fast-growth companies?

On the surface, it appeared to be a good idea: an innovative, aggressive, fast-growing (until recently) advertising agency hooking up with innovative, aggressive, fast-growing clients. It would be fun, it would be in line with our strengths, and it would be a niche all our own.

Step one was to do our homework. We believed that if we could discover some unique marketing challenges that fast-growth companies face, we could find a way to address them and establish our expertise. So we talked to dozens of growth companies. We probed them about what they were doing right, what they were doing wrong, and what kept them up at night. And we learned a great deal.

Not only did we come to understand how fast-growth companies differ from mature companies, we were able to identify four unique growth company profiles. We were so excited by this discovery that we published a report called "The Four Horses."[1] It described the four kinds of growth companies—which we dubbed Thoroughbreds, Fillies, Mules, and Mustangs—and demonstrated how each has unique marketing challenges, opportunities, and needs.

We began to experiment with positioning the agency based on what we had learned. We bought lists of growing companies and sent them direct-mail pieces offering free copies of our study. That generated a few responses, but it didn't get us the bounce we had hoped for. We advertised the report a couple of times in the *Wall*

Street Journal and received a few inquiries, but nothing too promising. We even developed a traveling luncheon presentation to which we could invite growing companies from major markets to present our findings and form new relationships. But after disappointing results, we abandoned that strategy.

It was during one of those trips that the struggles we were having hit home for me, physically, personally, and hard.

I was in the Seattle airport, having just come from a luncheon that can only be described as humiliating. I'd made the trip with Chris Moore, one of our senior account managers. We had rented a lovely hotel banquet room with a beautiful view of Puget Sound. We had worked our invitation list hard and had eighteen confirmed reservations. I had been looking forward to presenting our fascinating research and making several new contacts.

To our surprise and disappointment, out of the eighteen people we expected, just a single CEO showed up. One. It wasn't raining, there weren't any accidents on the freeway, and there was no obvious reason why our confirmed attendees didn't show. They just didn't. We had invested in traveling to Seattle, renting luxury hotel facilities, and buying eighteen expensive lunches for a single prospect who, as it turned out, wasn't a fit for us anyway. It would have been better if no one had come.

It's a little odd making a presentation to one person in a room set up with a podium, a screen, a projector, and tables and chairs for twenty. "Awkward" just doesn't do it justice. Our guest was more than gracious, acting as if nothing was wrong, and suggesting we go ahead with the presentation as planned. Because he took time out of his day to join us, I thought he deserved at least that much. But all I could think of as I made my speech was how badly I wanted to get the humiliation over with and get out of town.

When we left the hotel and made our way to the airport, I thought I would relax and forget about the whole episode. Chris and I had a few minutes before a flight to San Francisco, where we had another luncheon scheduled for the next day. I went to the airport gift shop to find something I could bring home to my kids.

Standing over a table of T-shirts, I saw one I liked and reached across to grab it. As I did, the strap of my briefcase slipped off my shoulder. When I tried to catch it with my forearm, the twenty-pound force yanked me in the opposite direction, wrenching my back. The next thing I knew, I was on my knees.

I was an athlete growing up, and I've experienced my share of injuries. In the past, I had always been able to shake them off. But this one was different. This wasn't a bruise or a pulled muscle: it was (I later found out) a badly herniated disc. The next twenty-four hours were the most excruciating I have ever experienced.

Chris had already gone on to the gate. "If I don't get there," I thought, "he may board the plane and not even miss me until it lands in San Francisco." Alone on the gift shop floor, I picked myself up, forced a smile at the passersby gaping at me, and started painfully making my way toward the gate. It took me about forty-five minutes to make the five-minute walk, but I got there, leaning on the wall, shuffling my feet, and virtually dragging my briefcase behind me. I didn't care what I looked like at that point; all I wanted to do was get on the plane, sit down, and let my back recover.

They say humor equals tragedy plus time, and looking back on my flight, I suppose it was pretty humorous. I happened to have an aisle seat, so I didn't have to climb over other passengers (something I don't think I could have done). But during the short flight from Seattle to San Francisco, both of my seatmates had to go to the bathroom—at different times. That meant I had to stand up and sit down four times as each one came and went. The airplane that I had been looking to as a rest stop instead became a torture chamber. I was hunched over, sweating, and near tears, and all I could think of was getting to my hotel bed where I could convalesce.

By this time, I had the feeling that my injury was pretty serious. When the plane landed, I told Chris that I was badly hurt. He offered to take me to a hospital. But I still thought that all I needed was rest, so he helped me collect my baggage, crawl into a cab, and hobble into the hotel.

We were staying at the Palace, one of San Francisco's magnificent historic properties. It was a stretch for our budget, but we wanted to make a good impression on our luncheon guests. James Korenchen, our public relations director, was waiting for us when we arrived and wasn't expecting to see his boss in such rough shape. After a slow and excruciating walk to my room, I gingerly laid down on the bed and made plans not to move for the next twelve hours. What happened next surprised me.

Instead of relaxing, the muscles in my lower back continued to spasm and tighten, alternating teeth-clenching pain with moments of relief. I thought about calling an ambulance, but I figured all they would do is take me to a hospital where I'd be stuck for days and mess the whole trip up. And I had a luncheon to host tomorrow.

So I stayed on the bed. I didn't eat, I couldn't sleep, and I had no interest in watching TV. All I wanted was for the pain to go away. The lamp by the bed was still on, and it was going to stay on all night. I couldn't bear the thought of reaching to turn it off.

When I awoke after a fitful night's sleep, the pain had begun to subside. But the muscles in my lower back were simply locked. I couldn't stand up straight. I walked down to the lobby like a six-foot man in a hotel full of five-foot ceilings and decided with my team that I was in no shape to make a speech. Chris and James hosted the luncheon while I sat in the lobby. Then they gamely escorted me to the airport.

Standing in line at the ticket counter, I felt like a fool. I didn't really care what the strangers around me thought, but the opinions of my colleagues mattered a great deal. Here I was, their fearless leader, looking like a mere mortal—and a silly one at that. I was embarrassed not only by my hunched-over appearance but by how helpless I felt. I had expected to lead my team to victory and carry home the kill; instead, I was the one being carried home. It was an all-too-appropriate reflection of what I was going through as a leader at the time.

It took weeks for my back to recover and even longer for me to feel good again about my role as the leader of the company. It also