

Opportunities for Action in Operations

# Realizing the Potential of Multibusiness Companies for Organic Growth

THE BOSTON CONSULTING GROUP



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In their pursuit of growth, multibusiness companies have traditionally deployed two basic strategies: expansion of their portfolios through mergers and acquisitions, and organic growth of the individual businesses within their portfolios. Both approaches are proving increasingly challenging. The M&A strategy, while highly successful in some instances, is notoriously plagued with risks and difficulty: studies by The Boston Consulting Group indicate that nearly two-thirds of M&A deals destroy value. On the other hand, promoting organic growth within individual businesses, though obviously important, may not generate enough growth to meet overall corporate (and shareholder) objectives.

There is a third option—one that is undervalued and, in some circles, almost unthinkable: cultivating organic growth across, as well as within, the company's existing businesses. Such an approach might entail, for example, creatively adapting a technology from one business to meet the needs of another's customers, jointly managing a customer across two or more businesses, or leveraging the scale of one business for the benefit of another.

Of course, taking this approach is easier said than done. Most companies have no structures or processes in place for pursuing cross-business opportunities and little experience in seeking this kind of growth. Moreover, the individual businesses within a company are likely to compete and resist rather than collaborate. Nonetheless, in our view, cross-business opportunities have tremendous potential to generate organic growth and boost shareholder value.

## Three Areas of Opportunity

To achieve cross-business organic growth, companies have three assets they can leverage: their capabilities, their customers, and their scale.

**Leveraging Capabilities Across Businesses.** This approach entails giving the relevant businesses access to one another's skills and technologies in order to maintain and extend their product and service offerings. For example, an account manager in the paper business of a company that also owns a paint business (among others) learned that one of the paper division's customers was developing a new ink-jet printing system that would require new inks with unique specifications. Aware of automotive-related research that was under way in the company's paint business, the account manager contacted the researchers involved. The researchers collaborated with both the paper division and its customer, using existing technology as a starting point. An entirely new market, with high growth, emerged from this coordinated effort.

**Leveraging Customers Across Businesses.** This strategy requires developing a coordinated and unified cross-business approach to customer interaction—but only when it can create real value for the customer and the company. For example, Honeywell, which is active across a wide range of businesses, has developed an integrated approach to aviation security—a market for many categories of its products, including automation and control systems, airport command-and-control systems, secure aircraft-communications systems, and specialty materials. The company was able to employ existing core technologies to develop an offering that addresses the needs of both OEMs and airlines, leveraging its existing relationships in the aviation security market.

**Leveraging Scale Across Businesses.** In this approach, the company benefits by using the established position of one business to reduce costs or risks for another. For example, to enter China and India, some companies have coordinated the infrastructure buildup and the sales efforts of multiple businesses, while at the same time providing support from their in-house financing arm. This coordinated approach has reduced costs, opened up new opportunities, and speeded entry into these high-growth markets, allowing more divisions to take advantage of the benefits they offer. As a result, these companies have been able to establish a successful presence in difficult markets despite the high cost of entry and the potential business risks.

## **An Action Agenda for the Corporate Center**

Growth doesn't happen by accident. Cross-business organic growth, in particular, requires hard work, enlightened leadership, and a willingness to change. In a multibusiness company, the corporate center has an essential role to play in both identifying openings for cross-business organic growth and facilitating that growth. To capitalize on this potential, the center needs to

- identify new growth opportunities and map them to existing capabilities
- establish collaborative platforms
- incubate initiatives
- align incentives to encourage a cross-business mindset
- achieve early success

**Identify new growth opportunities and map them to existing capabilities.** Individual businesses are good at identifying opportunities both in and adjacent to their current fields of play. However, they find it difficult to look outside those boundaries. The corporate center is in the best position to identify opportunities of interest to the company but beyond the vision (or appetite) of individual units.

An essential element in any effort to foster organic growth across businesses is acquiring a deep knowledge of customers—something few corporate centers invest in sufficiently. The best starting place for learning is always those businesses that are already selling to key customer groups. By understanding in detail the value chains of shared customers, companies can identify unmet needs, both current and potential. And knowing the needs of common customers can help flag companywide opportunities.

The customer's value proposition should be the basic rationale for driving growth across businesses, and it should be articulated with increasing specificity as the project progresses. Maintaining this strong customer focus is also a powerful antidote to managerial skepticism—and a key criterion for success.

Once it knows a customer's needs, the corporate center can identify assets across the entire enterprise that might meet those needs. If the required capabilities are located in different businesses, the center can bring them together. If they don't yet exist anywhere within the company, the center can help address the buy-or-build question, keeping in mind the company's interests rather than the narrower interests of individual businesses. The center is also best positioned to raise awareness across the organization of the technologies, process capabilities, and physical assets of

individual businesses that can be leveraged for the benefit of other divisions.

**Establish collaborative platforms.** Common business environments and communication forums are necessary for cross-business collaboration. In many companies, individual businesses have only a cursory knowledge of one another's capabilities, business systems, and leverageable assets. Collaborative platforms can serve many purposes, from simply sharing knowledge—about customers, markets, technologies, products, and processes—to actually working toward the development of new businesses. They can also take many forms, from part-time teams using online intranet forums, to dedicated teams working in shared office spaces, to technology councils and opportunity exploration teams. Only the corporate center can lay the groundwork effectively, bring the relevant parties together, and develop the necessary platforms and atmosphere.

We recently helped the center of a leading multibusiness company establish a cross-business technology council. This collaborative platform scored a quick win when one of the participating businesses identified an important leading-edge technology at a sister concern and used it to deliver a new solution to the marketplace in approximately half the usual development time. Managers at both businesses said that without the new forum, they would not have been aware of—let alone able to work together on—the potential opportunity.

**Incubate initiatives.** Once a customer-based opportunity has been identified, the corporate center must establish the organizational and operational foundations for the initiative—or it will likely die a quick death. A critical task is to coordinate business strate-

gies so that each division focuses on the new opportunity. The center must recognize and plan for the inherent tendency of individual businesses to revert to their own siloed perspectives. Although having appropriate cross-business incentives in place should be helpful, strong leadership from the center is almost always necessary to ensure that the managers (and other employees) of individual businesses take a unified view of the opportunity at hand. In our experience, this is where many multibusiness companies fail the test. Unless the center energetically and continuously supports the view that working across the portfolio will create real value, the individual units' inertia and self-interest will doom most fledgling efforts before they get started. You simply cannot expect cross-business opportunities, no matter how promising, to bubble up and survive without strong central leadership.

Each new cross-business initiative will face a wide range of strategic and operating challenges. In our experience, the simplest response is for the center to own the initiative in the early stages—and to fund it, at least in the beginning. Later, as the project progresses beyond incubation, business realities may dictate a more blended approach in which the project is housed at a specific business unit and funded jointly by both the unit and the center. And the center must formulate a plan for transferring ownership of the project to an existing business—or to a newly created one—once the initiative is deemed sustainable.

**Align incentives to encourage a cross-business mindset.** For cross-business initiatives to succeed, people at all levels of the individual businesses—and particularly their leaders—must be willing and able to collaborate with one another. This goal is often frustrated because each business brings its own priorities to the

initiative. To minimize parochialism, the corporate center must align the incentives of all participants to support the joint discovery of technological solutions, to coordinate customer opportunities, and to build momentum for shared initiatives.

The best-aligned incentives balance growth at both the corporate and the business level. Performance measures—whether directly tied to compensation or not—need to recognize and reward early-stage cross-business collaboration. Otherwise, behavior will be shaped by the existing compensation and measurement systems, which in most organizations are (appropriately) tightly focused on individual business performance—so much so that activities unrelated to performance goals have difficulty attracting attention.

**Achieve early success.** Even with the appropriate incentives in place, many managers will remain skeptical about the value of collaboration in general and the role of the corporate center in particular. So it behooves leadership at the center to initiate cross-business efforts by launching one or two projects that can be executed quickly and with a high probability of success. Early successes bring home to business leaders the value of both collaboration and the center's role in driving growth. They require choosing the right customer-driven initiatives, providing them with adequate funds and high-quality people, removing organizational impediments, and—most important—ensuring the necessary senior-level sponsorship and commitment.

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In their quest for growth, multibusiness companies often fail to take advantage of all the tools at their disposal. Leveraging the power of the portfolio through

cross-business initiatives can open up entirely new avenues of opportunity. And the challenges, while real, are surmountable. Before making significant investments in M&A activities, multibusiness companies would be well advised to capture the rich opportunities for organic growth already in their portfolios—across their individual lines of business.

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