



**NORTHPOINT**  
BUSINESS ADVISORS



**Investing in the Value Stack:  
A Discipline for Revenue Growth**

Photo credit: Thomas Hawk

Better Decisions. More Growth.

# Investing in the Value Stack: A Discipline for Revenue Growth

As we enter the second decade of the 21st century, management teams are grappling with the “new normal” – an economic environment of protracted slow growth. After previous global economic downturns, we came to expect more rapid growth rates during the rebound period. Against this backdrop, corporate leaders are challenged to move than ever, to find new pathways to sustainable revenue growth and improved corporate performance. When the overall outlook feels more like a stall rather than a rebound, corporate leaders tend to insulate their companies from the combined forces of tighter credit markets, lower consumer spending, and the paralysis of uncertainty. This insulation often comes in the form of cost-cutting, which is the fastest way to backfill profits in a cool economy.

The cost-cutting lever, of course, must be pulled with intelligence and forethought. There are too many examples of companies that move aggressively to cut costs, only to realize they have hollowed out key reservoirs of value creation, such as customer loyalty, brand value, innovation, or product quality. Focusing on cost is essentially a defensive posture. Companies that “hunker down” to weather the economy may find that the competitive landscape will shift dramatically around them.

Consider this: Cost-cutting represents a limited resource for future profit. In other words, managers with an overly enthusiastic focus on cost are exploiting a limited source of bottom-line growth. You can only go to that well a few times before it runs dry. Sustainable future growth must come from a value-obsession, not solely a cost-obsession. Unless your company’s competitive strategy is centrally defined by low-cost products or services, you should be balancing cost-focused initiatives with an intelligent approach to value creation and expansion. New opportunities for value creation can be identified from several sources — including the voice of customer investigations and competitive intelligence, but then must be executed through a disciplined approach with a strategic allocation of resources. This paper will examine how to balance cost and value exigencies by focusing on what we call the Value Stack.



## Your Approach: Investing in the Value Stack™

Most of us are familiar with the concept of a “technology stack” or a layered set of technology capabilities: applications sit on top, followed by software services and operating systems in the middle, and hardware at the bottom. The concept of a stack is useful because it helps us to visualize interrelationships and interdependencies, such as total and relative costs of various strata of an organization or the integration needed to successfully combine resources along a chain. For example, how do choices made within foundational layers affect technologies or services needed in subsequent layers?

Many companies have managed their enterprises using a “cost stack” emphasis—that is, they are focused on understanding and tightly managing those activities that reduce the cost of delivering products or services in an attempt to maintain a competitive advantage.

A cost analysis identifies tranches of workers and resources that can be made more lean or efficient without adversely affecting quality, value, or culture. An array of tools and methodologies exist to measure success in managing costs—from Lean and Six Sigma to more traditional cost accounting and ROI analysis. Here, an intelligent and measured approach can yield immediate, positive payback for managers confronting diminishing revenue growth.

Often neglected, however, is a firm’s value stack. A value-based approach aims for the maximum price value for offerings and intends to gain market share by providing confidence and establishing a difference to valued customers. The value stack is too often overlooked, but that is particularly true during an economic downturn. Worried, cost-focused leaders zero-in on incremental one-time gains rather than sustainable future growth and, in doing so, may rob future wellsprings of innovation. Bill Amelio, former CEO at Lenovo, explains, “Reduced spending on innovation, on R&D, looks appealing in the short term to keep expenses in line, but that’s incredibly short-sighted. No company can simply innovate overnight when the business comes back. You need to keep investing now, keep the fires of innovation burning because it will take too long to reignite them later.”

So what activities—and what sustainable growth—are available from a value-stack focus? Value-focused management helps companies to connect with customers, understand core product/service value, increase market share, and build a competitive advantage based on differentiation and loyalty. Value stack components help to build *sustainable* engines of growth.



**The **cost stack** typically receives at least 10 times the human resources of the **value stack****

## Defining—and Redefining Value: A Continual Process

What I have found mystifying over the years is the tendency of companies to spend ample resources on internally-focused product development activities without rigorously testing concepts within the marketplace or closely evaluating the customer experience. Too often, new products/services are developed with a myopic impulse to fill out a portfolio of products or meet a perceived need without adequate outside-in perspectives beforehand or testing later on in the process before substantial investments have been made. Products are often hatched internally without rigorous market testing and external perspectives to successfully commercialize them and grab market share.

Why does this “insulation” exist in so many business-to-business enterprises? Simply put, there is a bias for managing for cost versus managing for value, and this bias results in a sharp imbalance in allocating resources and talent to value creation. Within enterprises large and small, the process of defining and differentiating value is neither understood nor properly emphasized. In our experience, firms are typically lopsided in how they resource the value stack. The cost stack typically receives at least ten times the human resources of the value stack. Why is there a tendency to under-resource value creation? We believe that it’s because cost-based management is easier to understand and relatively straightforward to measure. Value-based management, on the other hand, is largely misunderstood and more often poorly measured. The task is usually assigned to creative teams or business development teams under the marketing umbrella — and more often than not, these individuals lack business acumen, methodological tools, and quantitative rigor. One could argue there is a deep cultural divide between the two stacks: the cost stackers typically have more fact-based analytical talent, while value stackers generally retain feelings-based, intuitive, creative talent.

We believe that to successfully drive value creation, firms need to apply the same discipline and rigor – and the sheer number of resources – to the value stack that they have to the cost stack. Those skills and competencies traditionally deployed on the cost stack—such as quantitative proficiency and analytical aptitude—are direly needed in roles that drive company value and top-line growth.

*Reinvestment is the single most important thing you can do with profits as it will help your company grow. It’s one thing to have a great base but it’s another entirely to grow it — and keep growing it. Take the steps to grow your company to the next level and one day we’ll see you take your place on the Fortune 100 list.*

— Colbey Pfund,  
Co-Founder of LFNT Distribution

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*The 181 CEOs who signed the statement from Business Roundtable, an association of chief executive officers headed by JPMorgan Chase’s Jamie Dimon, pledged to run their companies “for the benefit of all stakeholders — customers, employees, suppliers, communities, and shareholders.”*

*The statement marks a notable move away from the adherence to shareholder primacy — the belief that corporations exist principally to serve shareholders — which the group had embraced since at least 1997. “Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term,” Dimon said in prepared remarks.*

*That pivot should catch the eye of a growing number of organizations committed to impacting investing, the practice of investing in companies, organizations, and funds to generate not just financial returns, but measurable social and environmental impact as well.*

## Rebalancing the Enterprise to Focus on Value

Many do not realize that value creation need not be a long-term, capital-intensive activity. Northpoint Advisors has helped many companies in crisis to drive sustainable growth in short periods by deploying tested value-creation tools and methodologies. Our business acceleration practice – *QuickLift™*, offers fresh ideas and perspectives through rigorous market research and voice of the customer investigations — and our implementation of those fresh ideas focuses on delivering practical, actionable solutions with immediate results. While many companies are paralyzed in the current economic malaise, unable to determine the best pathway to sustainable growth, our engagements offer roadmaps with opportunities for quick revenue lift.

John Chambers, former Cisco CEO and veteran of the dotcom bubble explains, “Without exception, all of my biggest mistakes occurred because I moved too slowly.” In the current economic slowdown, nimble companies that focus on business intensification—even within a limited timeline—can realize immediate lift.



## What are the most powerful ingredients to drive rapid business growth in crisis?

- 1. A lead manager or consultant with deep experience in managing through downturns and crises.** This leader must have the ability to deploy both quantitative and creative tactics to make sense of problems, and the vision to focus on those activities that deliver the highest and fastest return on investment.
- 2. A well-tested portfolio of investigative tools and methodologies.** Driving immediate business growth—particularly in a downturn—requires a highly-tuned set of tools to uncover hidden opportunities and value. Many firms provide market research, but few have the rigorous frameworks and scenario-tested experience to pull-off business acceleration. As Niko Canner, co-founder of consultancy Katzenbach Partners, noted in March 2009, “People are using approaches that are *insufficiently powerful* to get them where they need to go.”
- 3. A multidisciplinary team with a balance of creative and quantitative competencies.** Value creation is too often assigned to creative marketing roles, when in fact deep quantitative and analytical skills are needed to drive decision making and aggressive, disciplined implementation.
- 4. A commitment to rapid deployment.** Too many market investigations fail to limit the focus to the most *critical and effective* activities. Business acceleration activities should drive results within 90 days.
- 5. The entrepreneurial energy and commitment to drive change.** Often an outside-in perspective is necessary to refocus energy and drive. Very few management positions are *accountable* for growth, and few managers have the attention or bandwidth to contribute substantially to a growth initiative.

## From Short-Term to Long-Term Value Creation

While opportunities for short-term lift exist for those with the right skills and toolset, organizations must also seek out longer-term realignment to staff their value stack with the right talent and institutional resolve. For companies that compete through Customer Intimacy or Product Leadership, value stacks are a key method to achieve a leadership position in the market. Even for companies that compete through Operational Excellence, value stacks are essential to maintaining and realizing margins and avoiding commoditization through differentiation. In the current slowdown, when so many companies have abandoned or at least minimized value creation, an organized and methodical approach to extracting value throughout the product development cycle is key. Without investment in the value stack, firms are leaving money on the table.



# Case Study: Business Seeks Immediate Lift

A manufacturing company saw revenues fall by 35% in the twelve months following the September 11 terrorist attacks, resulting in a high number of layoffs and fundamental business instability.

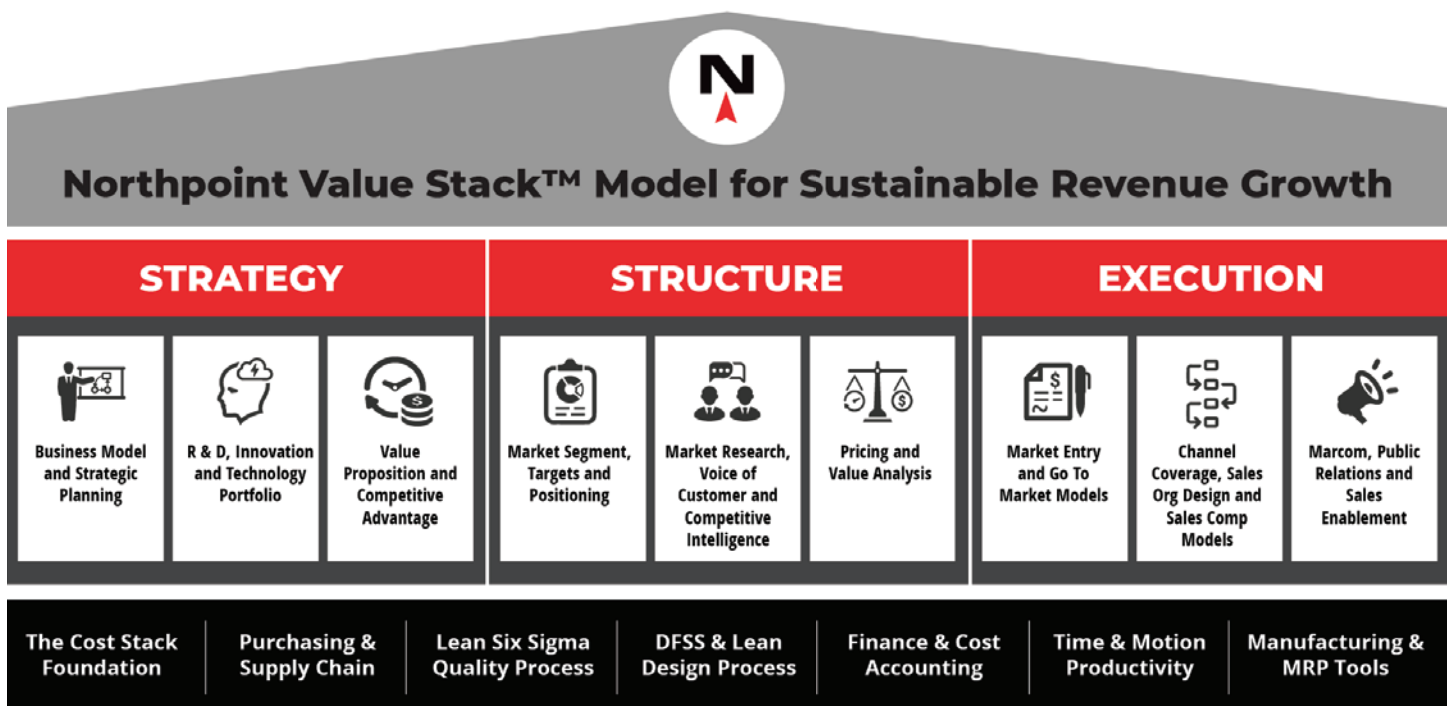
**The Question:** How can this company rebuild lost revenue *and* layer in greater resilience to competitive forces?

**The Solution:** Northpoint Advisors conducted a quick-deploy market research investigation and redefined market segments. Next, the company realigned around these new market segments, re-focusing on high-opportunity areas. Also, the value proposition was revised and tested prior to deployment. Revision included adding a service component to the value proposition.

**Tools:** Strategic business assessment, competitive intelligence tactics, Go to Market framework.

**Results:** The business recaptured 20% of lost revenue in Year One, and 25% in Year Two. The new business had multi-year value and better gross profit returns.

*Value Stack™ and the use of Cost Stack™ in connection with the business concept as expressed in this document is a trademark approach of Northpoint Advisors, LLC.*



# About Northpoint Business Advisors

## Revenue Growth Experts

Since 1995, Northpoint Business Advisors has been successfully helping companies of all sizes identify new revenue sources. More than 200 companies have discovered the value of bringing in our firm to take a comprehensive look at their existing business models and strategies. And we think you should too.

We keep abreast of the latest approaches in business solutions, strategy, analysis and operations, enabling us to help you get a fresh perspective of what needs to change to optimize your business for accelerated revenue growth.

Northpoint's expertise is in varied markets including, but not limited to, medical devices, building systems, high-tech manufacturing, water and energy infrastructure, and renewable energy.

We are lean and agile, and experts at creating high-performance, on-demand teams. Once your project needs are identified, we'll deploy a team of professionals with the highest level of experience. Our company is made up of direct employees, dozens of associates, and over 50 top-level authorities in varying business fields.



## High-Value Performance

Northpoint maintains close ties with thought leaders, industry analysts, technologists, researchers, regulators, and key executives at leading market firms. We ramp-up quickly and get expert answers and insights fast. Our "outside-in" perspective extends beyond our organization to assure all perspectives are vetted and sound before they reach your team.

## The Northpoint Revenue Growth Commitment

You may be concerned about group think and need a fresh set of eyes to look at your project. Maybe you have a critical project but don't have enough bandwidth on your team to get started. Or maybe you're stuck on a tough problem and can't sort it out. In any case, Northpoint can help. We can be your trusted business advisor, and help you and your team achieve successful results...fast. That is the Northpoint promise.



Someone is always going to assess your strengths and vulnerabilities; it would be best if it was Northpoint and not your competition. Build your ideal **NorthpointGOLD** program today, call **833-GROWREV (833.476.9738)** or email us at **info@northpointadvisors.com**.

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