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"Chief Synergy Officer"

What did Winston Churchill say about democracy? "The worst system, except for all the others."

Of course, the old bull dog was referring to the shortcomings of our political system; but he could just as easily have been talking about the inefficiencies of our economic system. While free market capitalism is the most effective business system in the world, it is at the same time highly variable and *inefficient*, especially at the individual business level.

Why is this so? Stated simply, the complicated task of connecting suppliers with manufacturers or service providers, and eventually providers with consumers, requires tremendous amounts of effort and costs. The fact that sellers and buyers have hundreds of different options means that each has to expend tremendous energy to identify potential counter-parties, evaluate competing options, convince buyers of the value of their offerings, manage contractual agreements, and account for financial outcomes. This is what creates jobs for millions of people in functions like purchasing, sales, contract management, marketing, distribution, accounting, and so on.

What does this have to do with you? If your role includes developing your organization's business strategy, I suggest that you look for ways to improve the business model for how your products or services reach your customers by eliminating some of the inefficiencies between providers of different components of your customer's needs. Specifically, I suggest that you define (or redefine) your role of Chief Strategy Officer to be that of *chief synergy officer* – with responsibility for finding new sources of value by changing the scope of how your company meets customers' needs.

The position of Chief Strategy Officer is typically charged with a range of tasks including advising the CEO on strategic issues and supporting the organization's overall planning process. If you look at the standing definitions of the responsibilities of the CSO, you tend to find phrases like "communicating corporate strategy to key stakeholders," or "engendering commitment to strategic plans," or "promoting decision-making that sustains change." In other words, in this view, the CSO serves as a cross between a strategy guru and a cheerleader, who exhorts and cajoles people into staying true to the corporate course.

I argue that the CSO can become far more relevant to the organization's priorities and improve his or her standing in the organization by making improvements to the firm's efficiency and overall value proposition, which are key priorities for the role. The way that the CSO can do this is by changing the scope of what the company does. Often this involves expanding into new activities where overlapping functions (sales, contracting, sourcing, R&D, etc.) can be shared, thereby spreading indirect costs across:

- Multiple products
- Multiple customers
- Multiple channels of distribution, or
- Multiple parts of a vertically integrated firm.

"Chief Synergy Officer" was written by **Stuart Jackson**, Vice President of L.E.K. Consulting and author of *Where Value Hides: A New Way to Uncover Profitable Growth for Your Business* (Wiley 2007). This article is © Emerald Group Publishing Limited and first appeared in the Journal of Business Strategy.

The challenge is to do this while avoiding inefficiencies in other areas. For example, if you are an efficient manufacturer of pens, then adding writing paper might be an effective way to leverage customer relationships and channels of distribution. But if your scale in paper is way below that of other suppliers, then this might more than offset your gains in indirect costs, and make you less efficient than more focused competitors. Instead, you need to build or buy businesses in other parts of the value chain that are competitive in their own right, and become differentially more efficient when combined with your existing operations.

Consider the case of Coinstar, Inc. Founded in 1991, this Bellevue, Washington-based company set out to take advantage of the so-called "fourth wall" in supermarkets – that is, the generally underutilized space just inside the front door. Its initial business model was simple, involving the installation of coin-counting machines that gave users paper money in return for their spare change – and, of course, charged a fee of 8.9 percent in the U.S. for that service. (The machines also enabled consumers to buy gift cards and make charitable donations at no charge.). The company went public in 1997, and in its first ten years as a public company, its annual coin transaction volume grew from $333 million to $2.6 billion. At last count, Coinstar's 18,400 hulking green machines in the U.S., Canada, and the U.K. had processed something like 350 billion coins, with the average transaction amounting to about $38.

But despite all the top-line growth, growth on Coinstar's bottom-line growth remained frustratingly sluggish. So in December 2005, Coinstar bought control of Redbox Automated Retail, a company that rents DVDs for a dollar a night through self-service kiosks. Redbox was partially owned by McDonald's, which is how a lot of the company's 12,000 fire-engine red kiosks – serving some 35 million unique customers – wound up in prime locations beneath the Golden Arches. Redbox's success in McDonalds stores validated the attractiveness of its business model, despite the challenges of the DVD rental business that have compelled Walmart to quit the business and Blockbuster to scale back its stores.

But Redbox lacked a strong national sales force to go outside McDonald's, which is exactly what Coinstar did have. Since Coinstar took control, it has placed kiosks in supermarkets, drug stores, and other retailers at a rate of one per hour. The success with Redbox has enabled Coinstar to grow its top-line while spreading the cost of its sales and marketing efforts, leading the company to look for other "automated retail" opportunities that will expand on this success. Financially, the acquisition has been a great hit. Coinstar spent around $150 million to acquire Redbox. In the latest quarter ended March 2009, DVD revenues were up 150% to an annual run rate of $600 million, and operating income was up more than 100% to a run rate of over $100 million.

Coinstar/Redbox is an example of leveraging a sales force and a sales channel (retailers). Often these areas are some of the best opportunities for a CSO to target for potential synergies. Let's look at a company that has successfully leveraged both its sales channel and – more important – its consumer base. Saga Group is a U.K.-based firm that traces its corporate roots back to a single hotel that opened in Folkestone in 1948, but gradually evolved into a travel agency for British over-50s. Its corporate slogan, "Doing things properly," captures the distinctly British essence of the Saga brand, and reinforces the strong bonds of trust that exist between the company and its customers. This trust, as it turned out, is a great source of value.

Andrew Goodsell joined Saga in 1992, and took over as CEO in 2004. His stated strategy was to grow the business by leveraging its trusted brand among its over-50s customer group. He has delivered on that promise, diversifying Saga into a veritable blizzard of offerings for senior citizens, ranging from financial services to boat insurance to personal alarms to social networking. Many of those offerings have since proved to be platforms for still further extensions of the Saga brand. Just recently, Saga announced its own version of Facebook for seniors. Named SagaZone, it comes complete with options to convert web pages to larger fonts for those whose vision is not as good as it once was.

The strategy has been a tremendous success. In just three years between 2004 and 2007, the company grew revenues by over 80%. Over the same period, sharing of marketing, customer service, database management and other functions has meant that headcount has grown only 28%. In 2007, Goodsell substantially expanded the reach of the organization through a merger with AA in the U.K. (equivalent to AAA in the U.S.) in a deal valuing the combined entity at around $10 billion. Not bad for what started as an over-50s travel agent!

Here are a few tips for achieving similar success as you play the role of "Chief Synergy Officer," increasing your company's overall efficiency through changes in the scope of what your company does:

- Don't mistake size for efficiency. As I talk about in my book, *Where Value Hides*, bigger does not always mean better. In fact, there are plenty of examples of companies that have become *less* efficient and competitive as they have grown bigger. If you combine two businesses doing the same thing for the same kinds of customers (think Yahoo! and Microsoft's Bing combining forces to compete with Google in search engine services), then there generally will be good opportunities for sharing of resources and improved efficiency. But if you combine different businesses, you need to evaluate the real benefits carefully.

- Make sure that you're competitive in each area of expansion. If you do expand into new businesses, you need to find ways to be at least as efficient as the strongest competitors in those areas. Coinstar acquired Redbox in the DVD rental business because it had a unique, highly effective business model that enabled it to go toe-to-toe against industry leaders Blockbuster and Netflix. When Saga began offering financial services, it did not try to build its own banking and insurance infrastructure, but instead partnered with industry leaders and resold their products under its own brand.

- Cheerleading *is* important. I downplayed this role above to make a broader point. But scope expansions can only work when your business-unit leaders and functional heads buy into the plan. Explain how your expansion into adjacencies is going to benefit everybody.

- Sometimes you need to contract before you can expand. If you find yourself in a business where past growth initiatives have not followed the points above, then the best way to improve your organization's overall efficiency may be to *reduce* the scope of your activities. Perhaps you have customers who have different needs than the ones you serve best, or maybe there are products that lie outside your core capabilities. If so, then shrinking back to serve a narrower set of customers or products may enable you to focus on what your organization is really good at, and improve your overall efficiency and competitiveness.

I haven't even referenced what most people think about when they hear the word "efficiency" – that is, *doing the same thing at lower cost*. I assume that there are already people in your company pursuing that task energetically. I am suggesting that it is up to you to make sure that you are complementing those efforts by pursuing efficiency through the business synergies that come from managing the scope of what your company does.

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