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Growth Strategy: Finding the 'Spinach' for Your Business

by Rich Horwath

As kids, we watched Popeye the Sailor Man rip open a can of spinach, wolf it down and grow big muscles to win the day. If only growing our business was that easy.

What specifically are you doing to grow your business? What are the key growth strategies that you're employing to take your business to the next level? A clear understanding of the levers for business growth will dramatically enhance your ability to control your own destiny.

Growth is…

Growth of a business can be assessed through both quantitative and qualitative techniques. Gross profit is the most often utilized measurement of growth. Gross profit equals revenues minus the direct costs of goods or services being sold. Gross profit is a direct measure of the value that a company creates for its customers.

What metrics does your group employ to measure growth? Are those metrics consistent across the company? A common challenge is differing expectations on what growth looks like. Are you trying to grow revenue, profitability, or market share? If the sales team is measured on revenue growth and the marketing team is evaluated on market share growth, their respective efforts may be working directly against one another. Let's begin with a look at the reasons why growth stops.

Five Causes of Growth Stoppage

According to former MIT professor Michael Treacy, there are five general reasons why a business stops growing:

1. Company neglects customer value

An example of this is United Airlines. As the market and customer preferences for air travel began changing, United Airlines operated on an increasingly inefficient business model. They failed to see that the customer value drivers were changing from luxury and convenience to price and service.

2. Company places a bad bet on a market in which growth comes to a screeching halt

One of the primary reasons Hewlett-Packard's former CEO Carly Fiorina was relieved of her duties was because the acquisition of Compaq Computers destroyed nearly a third of the company's value. In a time when margins continued to drop in the PC industry, Fiorina dove H-P head-long into the shallow end of the pool.

3. Company loses a proprietary advantage

Nowhere is the effect of losing a proprietary advantage on growth more evident than the pharmaceutical industry. A pharma company losing patent protection on a key drug can easily see hundreds of millions of dollars evaporate almost overnight. In a "if you can't beat them, join them," response, Novartis, one of the largest producers of branded drugs, made acquisitions of two generic companies to become the top seller of generic drugs.

4. Company misses a significant value shift

When entrants Panera Bread, Corner Bakery, Chipotle and Subway gained traction in the fast food market, they successfully rode the value shift of higher quality and healthier options. This left companies like Burger King flailing aimlessly with offerings that didn't adequately meet the increasing value consumers placed on quality and healthy choices. Even worse for Burger King was the fact that their older rivals such as McDonalds responded to the value shift with premium salads and fruits that have further drained their growth.

5. **Company is caught napping by new competitor with next-generation value**

When a company that prides itself on excelling in the value discipline of product leadership gets "out-innovated," it is especially painful. That was the case for Sony, generally considered one of the icons of product innovation when Apple's iPod entered and took over the portable music player market. While Sony gradually moved away from their WalkMan music players, they fight an uphill battle of scaling iPod's 70% market share.

Five Growth Disciplines

So now that we know the reasons why growth stops, how can we kick-start growth for our business? In his book *Double Digit Growth*, Treacy outlines five growth disciplines that we can configure to build a portfolio of growth strategies for our business.

1. Improve Customer-Base Retention

Gaining new customers and new pieces of business mean nothing if we lose customers and pieces of business at the same rate. In order for growth from new business to substantially improve our standing, we must first ensure that the base of current customers holds firm. There are three guiding principles in maintaining the customer base:

a. Shape the Customers' Value Criteria

Oreck, a leading vacuum manufacturer, moved into a market leadership position in part due to their ability to shape customers' value criteria. They emphasized in every medium available that they had the "8 lb. vacuum." While the weight of a vacuum is only one of seven attributes (price, noise, cleaning efficiency, etc.) in the purchase decision of a vacuum, Oreck has convinced enough customers of its importance and rode the "8 lb." moniker to market leadership.

b. Increase switching costs

What have you done to make it difficult for customers to leave you for a competitor? GE developed a program under the leadership of CEO Jeffrey Immelt called "At the Customer, for the Customer" that has deeply embedded GE in their customers' business. Through a portfolio of consulting and training services, GE has packaged their expertise to create greater value for their customers' business and in turn, make it more difficult for customers to leave.

c. Narrow customers' alternatives

It stands to reason that the fewer choices your customer has, the greater probability that they will choose to do business with you. Bose, a manufacturer of premium audio equipment, has narrowed customer's alternatives by placing their products in high-end, "non-electronics" stores such as Nieman Marcus and Sharper Image. They have not utilized the mass and internet retailers where they would be up against dozens of competitors.

2. Take Customers from the Competition

While it can be the most difficult method of growing your business, taking customers from the competition is successfully accomplished every day by thousands of companies. The key to taking business from the competition is to deliver superior value. Delivering superior value starts with consciously selecting which of the three value disciplines to excel in: operational excellence (best total cost), product leadership (best product) or customer intimacy (best total solution). Once the value discipline has been selected, a critical next step is to craft a value proposition that clearly and concisely communicates your value to customers.

3. Staking Claim in the Fastest Growing Market Segment

If stealing customers from the competition is the most difficult way to grow business, positioning yourself in the fastest growing segment of the market may be the easiest. We say easiest because if you're well positioned in the fastest growing segment of the market, as the pie grows so will your slice of it. Selecting the right piece of pie is made possible by strategic thinking.

Strategic thinking is the generation of business insights and is propelled by a state of continuous interactivity with the market, customers, competitors and the organization. Strategic thinking enables you to identify market trends in value criteria, demographics and innovation before your competitors and leverage them for growth.

4. Moving into Adjacent Markets

For those groups that have mastered the first three growth disciplines, moving into adjacent markets presents a viable opportunity to take growth to the next level. The trick is to determine which adjacent markets have the characteristics that will enable success and which are opportunity quicksand. If the adjacent market differs significantly in cost structure, competitors, customers or necessary competencies, it may prove difficult to crack. Dell's move from PC's into printers is an example of successfully moving into an adjacent market while Levi's move from jeans to shoes is an example of that alluring quicksand.

5. Jumping into New Lines of Business

A new line of business is one in which your current core competencies are not of great value. A new line of business requires new capabilities and in many circumstances, these capabilities are purchased, as in an acquisition. Richard Branson's appetite for catapulting his Virgin brand into new lines of business ranging from music to cell phones to air travel is legendary. He has started a mind-boggling 350 companies and has demonstrated that venturing into uncharted territory can indeed pay off.

Growth Matrix

Another tool for finding growth in your business is the Growth Matrix. The Growth Matrix concept was introduced by Ram Charan and examines your business on two parameters: Needs and Customers—both of which are categorized as either Existing or New.

Need	Customers: Existing	Customers: New
New	Existing Customers With New Needs	New Customers With New Needs
Existing	Existing Customers With Existing Needs	New Customers With Existing Needs

The lower left quadrant is Existing Customers with Existing Needs or "expanding the share of the pond" as Wal-Mart did when it added groceries. The upper left quadrant is Existing Customers with New Needs or "expanding the pond" as Apple Computer did with their iTunes Music Store. The lower right quadrant is New Customers with Existing Needs or "same boat in a new pond" as Avon Cosmetics did when they entered the teenage market. And finally, the upper right quadrant is New Customers with New Needs or "new boat in a new pond" as John Deere Golf & Turf One Source did in moving into the golf course maintenance business.

"I Yam what I Yam"

Working without a thoughtful approach to business growth will leave you as helpless as Olive Oil tied to the railroad tracks. While there is no "spinach" for business growth, building a portfolio of carefully chosen growth strategies and using the Growth Matrix can add muscle to your business in a hurry.□

Rich Horwath helps management teams develop their strategic thinking skills to grow profits and achieve competitive advantage. He is the president of the Strategic Thinking Institute, a former Chief Strategy Officer and professor of strategy at the graduate level. Rich is the author of *Sculpting Air: The Executive's Guide to Shaping Strategy* and frequently speaks to organizations on strategy. To sign up to receive future free issues of *Strategic Thinker*, visit www.strategyskills.com