Strategies for profitable growth

It's not just good fortune, it's also good planning.

Profitable growth is rarely a matter of luck. However, few companies manage to undertake the pro-active, logical planning steps needed to hit the corporate exacta of simultaneous growth and profitability. In many cases, companies fail because executives cannot get out of firefighting mode long enough to tackle true strategic issues.

Large companies can often dedicate staff to annual formal strategic planning initiatives. Smaller companies, often lacking the staff, fearing the process and dreading the costs involved, can end up skipping strategy altogether. However, planning for profitable growth needn't be a mind-numbing, expensive process. Business owners can take some relatively short and specific steps that will take them far down the profitable growth path.

Smart Business talked with Jeanne Fec, senior principal with Frank Lynn & Associates Inc., to identify planning steps that don't cost an arm and a leg.

Jeanne Fec
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What first steps should business owners pursue to plan for profitable growth?

The senior executive should gather his or her management team and simply fill out a traditional product/market matrix. First, it focuses the management team on its customers. What market segments comprise the company's existing base? Are these customers satisfied with the company's product line? Does the company have a high market share here? If the opportunity exists to sell more product to existing customers, this is the no-brainer first step in profitable growth.

Furthermore, companies might find that they can generate easy gains from simply tweaking existing products. A good example comes from consumer packaging. You may have noticed a trend in supermarkets away from general convenience to 'resizing.' Several companies are repackaging their products into smaller packs, with correspondingly smaller calorie counts. Extending the product line in this way can re-energize the brand in the minds of existing customers and also help target new customers.

Is going after new customers a requirement of profitable growth?

Frequently, yes. However, to truly answer this question, companies must collect and analyze customer-level data. What sub-segments make up the existing base? How large are these sub-segments? What are their needs? Where do they shop? Where do they buy?

If the existing base is too saturated, business owners will need to look outside the core. What types of customers are not being served? Which potential customers, by company size, industry or other so-called 'firmographics' might be in adjacent markets? Which new customers might be most amenable to buying the company's existing products?

Business owners can turn to many lower-cost sources to find this type of information, such as their own salespeople, the distribution channel and industry trade publications. However, at some point, companies will want to invest in market research.

What other steps beyond a product/market analysis can businesses pursue in their quest of profitable growth?

Another common step is to make sure you actually have the market coverage you need. Too frequently, companies believe they are reaching every potential customer when in reality they aren't.

Companies often find that they have insufficient coverage because they don't realize that other distribution channels have entered the market, or they don't know how to engage these channels, or they're worried that tapping new channels will cause unmanageable channel conflict.

Can you give me an example?

We have a client that sells kitchen sinks almost solely through wholesalers to plumbers and to big-box retailers. Somewhat blinded by their own success, they didn't realize that many consumers were turning to new channels such as kitchen and bath specialists, home design centers, countertop fabricators and home builders (who were taking the brand decision out of the plumbers' hands).

How can companies increase their coverage, get into new channels and avoid channel conflict?

Companies need to continuously scan the market for emerging customers and emerging channels. The best way to get into new channels is to ask customers why they've switched to the new channel. Using that feedback, build an ideal channel template. Include characteristics that fit customers' needs and your needs, such as skilled staff, growth attitude, gross margin requirements, potential for causing channel conflict, etc.

A little channel conflict is actually a good thing. If channels didn't run into each other sometimes, if it was quiet, you'd likely be undercovering the market. You can best manage channel conflict by carefully recruiting channel partners, adjusting your channel compensation system, building restrictions into your contracts, and clearly communicating with partners.

Profitable growth is definitely possible. The key is spending a reasonable amount of time to look before you leap.

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