Solving the Revenue Growth Dilemma

Part I: Market Share Growth Strategies

Creating growth is at the top of every CEO, division manager and general manager's agenda. Always has, always will be! The challenge for management today is to create sustainable growth that drives long term value for the company. Too often growth is obtained in incremental pieces that create neither sustainable profits nor appreciable value in shareholders' equity.

Successful growth strategies are driven by three factors.

First, is defining a *long term path to growth* not just individual events or targets. This path should start with a strategy to understand and dominate a company's core business before moving on to acquisitions or new products. Over time most companies loose touch with their core customers, their core market and consequently under state their true position. Only with a strong position in a company's core business, can a company leverage growth from one or more directions.

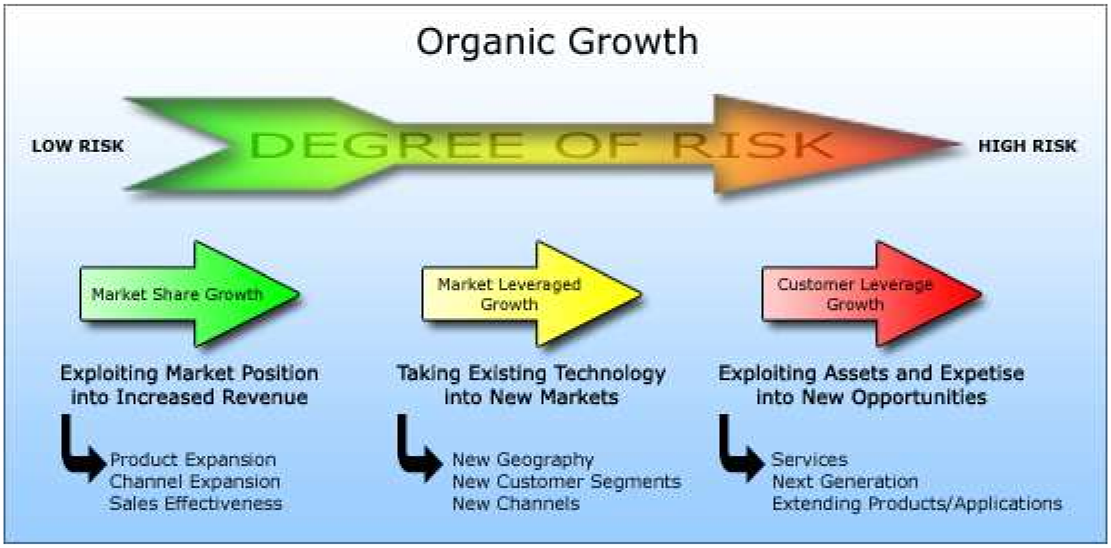
Second, growth has to *generate profits*. Growth objectives cannot just add to the top line. Profitable growth again reinforces the strategy to maximize a company's core business. Why? One of the key factors in strengthening the core business is the revenue to profit ratio. Generally, every one percent gain in revenue generates approximately three to four percent growth in profits. This leverage provides a company the ability to satisfy both earning potential and cash required to drive growth.

Third, is a *commitment to invest* on managements' part at a rate substantially above competitors and to continue to invest at a rate that will sustain a competitive advantage. Failure to adhere to this fundamental rule will only lead to short term gains at best and more generally to a weaker position over the long term. Successful growth strategies achieve competitive advantages.

Successful growth strategies start with dominating your core business and then focus on growing organically.

The most successful growth companies have grown through maintaining and exploiting a dominate core business. This strategy often referred to as growing organically evolves around maximizing market share in your core marketplace and then leveraging market and customer positions (see Diagram 1: Organic Growth Paths).

Diagram 1: Organic Growth Path



The foundation for developing an organic growth strategy starts with an in-depth understanding of your company's core business and its served market. It starts with an effort to segment the customer base based on profitability to your company, ranking those customers who place high value on your products and or services thus supporting price and margins goals at the top of the list. This segmentation analysis should also include those customers who have left the fold and the reason for dropping your products and or services. The analysis should generate 3 to 5 customer segments, from highly profitable to marginally profitable plus lost customers.

For each segment, you need to determine:

- How your products are deployed and the value derived by the customer
- How competitive products are deployed and the value derived by competitor's customers
- Customer buying behavior; tracking changes that may have occurred
- The size of the customer base and the total revenue potential
- The flow of revenue through direct and indirect channels for each competitor and the regional distribution
- Competitors' investments; minimally--marketing, sales, channel, service costs and if possible manufacturing costs

The result of this analysis should yield a clear understanding of your product strengths and weaknesses, your value proposition to the customer, your profitability across the various customer segments and your share position across customer segments, channels and regions. And to the surprise of many CEO's, it most likely will show that there are still opportunities for growth within your core business.

If you do not dominate (70% of better share) the two most profitable customer segments, this is your first path to growth!
Strategies in other segments with low share deal with long term profitability issues and more traditional take share approaches.

Market Share Growth Strategies

Take share strategies play on the strengths and weakness of various suppliers' share positions. Take share strategies can be applied to both market segments and the market on the whole.

Market Leader (*1).

Market dominance positions, targeting 70% or better, are rare but do exist. They are usually defined by markets where standardization around a single product produces economics of scale on the user's side, e.g. Microsoft Windows® OS in the microcomputer market. More realistic leadership share positions relate to targets in the 40 to 60% range. In markets where two to three strong competitors exist, market leadership can be achieved with shares under the 40% range.

Leadership positions equate to very strong positions in product and channel coverage. This usually manifests itself through a very strong and loyal customer and channel base.

Market leaders develop broad-line product and channel positions. Successfully delivering these two positions drive efficiencies that produce low cost supplier which leverage customer and channel pricing superiority.

Take share strategies against market leaders' deal with product and or service differentiation (end user segments) and value (ROI). It is very hard to attack and penetrate a leader's channel position without some form of product differentiation. One of the best strategies to attack a market leader is to define or create a new customer segment or be the first to open a new channel.

Market Stable.

The boundaries between stability and instability are usually defined by a minimum share position over 25%.

Second-tier positions usually equate to a weaker position in customer coverage. Typically, a number two or three supplier has slightly lower product coverage than the leader(s).

Companies fall into second-tier positions tend to do so because of coverage problems. In direct sales markets, there salesforce numbers are lower than the leader. In indirect channels, they either loose emphasis in their existing channel(s) or have not moved into new channels. In most markets, these suppliers have product positions only slightly below the leaders.

Take share strategies against second tier competitors deal less with product and more with attacking customer bases. Second-tier suppliers are vulnerable to regional take share strategies and being relegated to secondary indirect channels. Understanding when shifts in buying behavior occur at the user level provides a great opportunity to limit or lockout second-tier suppliers' access to new indirect channels.

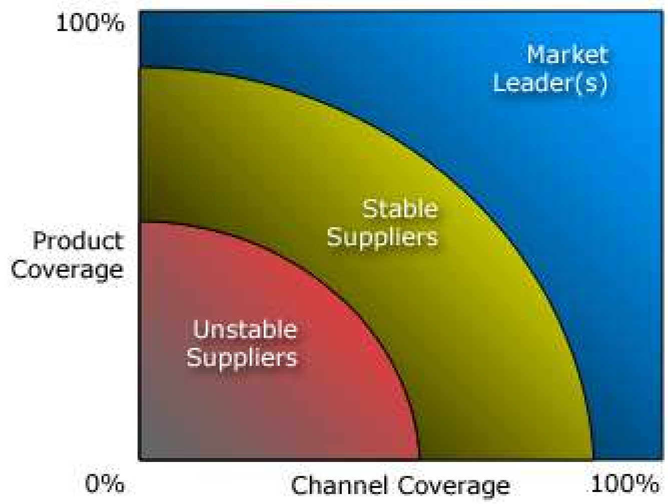
Market Unstable.

Positions under 25% have to be "niche" to be stable or a company can come under attack from competition. In B2B markets, "niche" positions are typically defined by specialized product that meets the specific needs of a very defined end user segment or very defined application within the wider market.

Low or unstable market positions equate to weak to moderate (in the plus/minus 50% range) product and channel coverage. Unstable suppliers tend to fall into regional positions or at best selected application positions. Suppliers who address low volume/high margin segments tend to develop definable "niche" positions. Suppliers who address low volume/low margin segments tend to be companies that cannot support long term, sustainable growth.

Take share strategies against unstable suppliers tend to be problematic. Attacking "niche" suppliers address similar strategies as market leaders because these suppliers have very defendable product positions and typically very loyal customer bases. Attacking suppliers with low volume/low margin positions violate the rule of profitable growth.

Diagram 2: Suppliers Product-Channel Strengths and Weaknesses



In summary, take share strategies have to be focused to be successful.

Take share strategies from a position of leadership

Strongest Strategy: Attack a competitor with a product share equal to or less than 25% but not a niche supplier.

Middle-ground Strategy: Attack a customer segment (B2B).

Weakest Strategy: Attack a geographic territory or region.

Take share strategies from a position of weakness

Strongest Strategy: Build a defensible niche position (customer segment) that can lay the ground work to expand product.

Middle-ground Strategy: Build a strong territory or region and expand geographically.

Weakest Strategy: Build or match leader's product line.

Pitfalls in formulating strategies to grow market share:

- Competitors don't give up market share just because you want it.

- “Work-harder” strategies are not successful unless the market is growing rapidly
- Buying share by lowering price gives away profits and is easily countered by competitors

Part II of Solving the Revenue Growth Dilemma will focus on taking your technology outside the current boundaries of your served marketplace … internationally, developing new customer segments, and developing new channels.

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*1 The analysis of Market Leader, Market Stable and Market Unstable comes from the work of Fredrick W. Lancaster and *Lancaster Strategy* by Shinichi Yano

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