

Growth Engines.... Which Ones Are Powering Your Future?

We believe that successfully growing a business is largely about making the right choices.

1. Making the right choices in **direction**.
2. Making the right choices in **what to emphasize**.

Our firm recently conducted an internet-based market research survey about company Growth Engines for the Association for Corporate Growth. This is the premier international association for professionals involved in middle-market corporate growth and mergers and acquisitions.

CEO and corporate growth officer members of the association were asked to evaluate where they are **directing** their company's growth, and what they are **emphasizing** to make it happen.

We thought you, our clients and friends, would be interested in the results, which are shared with permission of the Association for Corporate Growth.

Question One: What is the relative importance to your firm of generating more sales from existing Customers vs. new Customers?

- five years ago (1995)
- today (2000)
- projected in five years (2005)

Interestingly, sales to existing and new Customers each received equal scores on a 10-point scale for each time period.

We find this interesting because it is frequently more efficient to sell existing Customers more goods and services rather than to obtain and sell to new Customers.

Pervasive consolidation of existing Customers may explain a portion of this result. Reducing reliance on a few key Customers is a powerful motivator for many firms today.

Question Two: What methods are being emphasized by your firm to accomplish this growth?

First Choice: New and Improved Product Introductions

This was the top Growth Engine choice for all three time periods 1995, 2000 and 2005.

Respondents believe that of all the options available, focusing

on new and improved product introductions offers the strongest opportunity for growing sales to existing and new Customers.

Dramatic new products, especially those offering significant new features and benefits like Herman Miller's Aeron™ chair, 3M's Post It Notes™ or Black and Decker's Snake Light™ are what most firms would like to achieve. But these types of breakthrough new product successes are rare.

It usually is a relentless, methodical, consistent program producing more winners than losers that achieves positive results over time.

Many successful firms have a disciplined commitment to invest in new and improved products. This is sometimes expressed as a goal of achieving 25% to 30% of sales each year from products less than 3 to 5 years old.

Previous *The Stokely Letters* have highlighted what we have found to be the "Ten Secrets of Success in New Product Development". We will be pleased to provide them upon request.

Second, Third & Fourth Choices: A Three Way Tie for years 2000 and 2005 between:

- **Mergers and Acquisitions**
- **New Geographic Distribution**
- **Strategic Alliances (All Types)**

✦ **Mergers and Acquisitions** exhibited significant growth in importance for the respondents.

Mergers and Acquisitions can be an effective method to quickly obtain new products, new distribution, new management, new technology, and new Customers. It also represents an excellent method of becoming more important to existing Customers by combining suppliers into a larger overall product and service offering.

There continues to be a wave of activity in this Growth Engine area for companies of all sizes.

We find that most successful business combinations are based on excellent strategic work at the beginning. Identifying business strengths, opportunities to improve, and potential threats provide a solid foundation.

Objectivity and persistence is key throughout the process leading up to closing the transaction.

But the true measure of success for any business combination is generally the planning, energy and care put in to the post transaction integration.

✦ **New Geographic Distribution** is both appealing and sometimes necessary as existing reseller Customers expand geographically and wish their suppliers to expand with them.

After addressing the United States, frequently US based firms seek initial expansion into Canada, UK, Australia and New Zealand, where language issues are minimized.

Many firms get their feet wet through export and distributor programs. Logistics, competitive pricing and Customer support issues are increasingly encouraging US firms to establish their own operations off shore.

Geographic expansion has proven to be challenging, particularly for many US firms, due to differing Customer requirements, cultural and language differences, and what seems to be a natural tendency to focus on the United States where most sales and profits are often produced.

Leading firms recognize the increasing globalization of business, and the need to assure that they have the management capabilities and resources to effectively compete against any competitor.

✦ **Strategic Alliances (All Types)** displayed the most significant increase in importance for the respondents from the 1995 benchmark year.

Strategic Alliances can take many forms. Here are examples of the many ways Strategic Alliances are transforming the way business is being done.

General Mills has formed a Strategic Alliance with Nestle to market General Mills' breakfast cereals in Europe under the Nestle brand.

Ace Hardware is building its product offering of Ace brand hardware products through Strategic Alliances with suppliers who produce these products for Ace.

Andersen Consulting is providing consulting services to business start ups through Strategic Alliances in exchange for a piece of the action and an assurance of ongoing consulting work.

Outsourcing of production, logistics, call centers and benefits administration are all examples of an increasing trend for the firm to focus on its core competency, and form Strategic Alliances to perform tasks necessary to effectively support it (see *The Stokely Letter* "What it Takes To Be The Best").

Strategic Alliances of competitors are being formed in the automotive, aircraft and consumer products areas to use the internet to more efficiently procure goods and services ranging from raw materials to office supplies.

Fifth Choice: **New Channels of Distribution**

New Channels of Distribution were viewed as the next most important Growth Engine.

New Channels sometimes require changes in the way a company goes to market. Simply taking existing products to the warehouse club channel, for instance, frequently requires significant changes in packaging.

The margin, rebate, advertising allowance, and shelf placement "slotting" fee requirements of differing channels can also present a challenge.

Increasingly we see manufacturers establishing closer relationships directly with their end user Consumers. Companies such as Hewlett Packard now offer their machines and supplies directly to Consumers on their web site, in addition to traditional sales through resellers. They are also offering "refurbished" and discontinued products in this manner, as an effective way to deal with merchandise that can be difficult to liquidate.

It is apparent that New Channels of Distribution can create "channel conflict" issues which can represent a significant management challenge.

SUMMARY

The respondents to our Growth Engine Survey are focusing equal selling effort on both existing and new Customers today and for the next five-year period.

They view New and Improved Product Introductions as the most effective method to accomplish this growth.

Mergers and Acquisitions, New Geographic Distribution and Strategic Alliances of all types are then equally favored, followed by New Channels of Distribution.



"The future comes one day at a time."

Dean Acheson

"The great thing in this world is not so much where we stand, as in what direction we are moving". Oliver Wendell Holmes

THE STOKELY PARTNERSHIP INC.

BUSINESS GROWTH SPECIALISTS

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