

BUSINESS GROWTH STRATEGY

Strategic Planning and Emerging Firms

- Most entrepreneurs' planning for their ventures is informal and unsystematic.
- The need for formal, systematic planning arises when:
 - The firm is expanding with constantly increasing personnel size and market operations
 - A high degree of uncertainty exists
 - There is strong competition
 - There is a lack of adequate experience, either technological or business

The Nature of Strategic Planning

- Strategic Planning

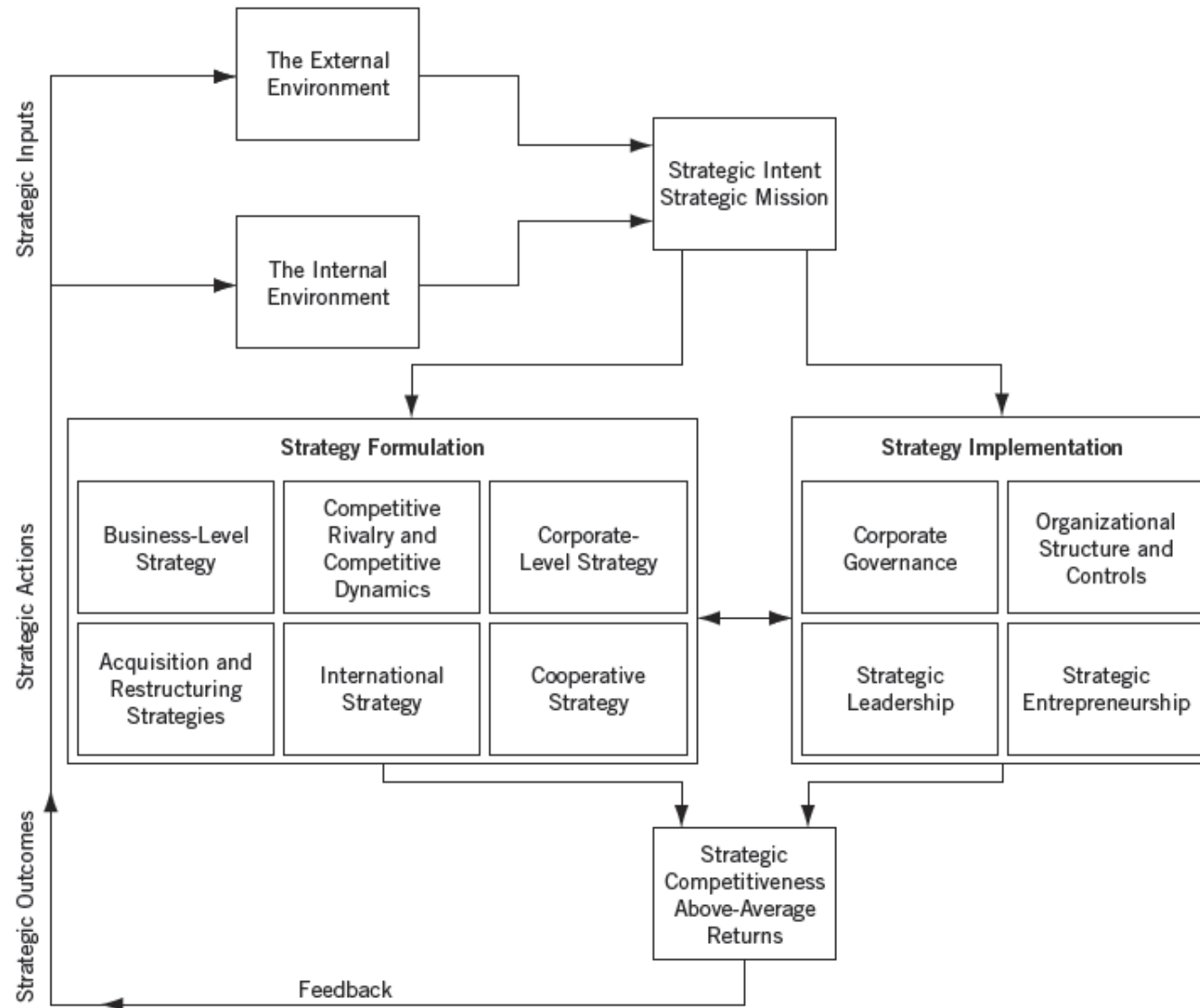
- The formulation of long-range plans for the effective management of environmental opportunities and threats in light of a venture's strengths and weaknesses.
- Includes:
 - Defining the venture's mission
 - Specifying achievable objectives
 - Developing strategies
 - Setting policy guidelines



The Nature of Strategic Planning (cont'd)

- Basic Steps in Strategic Planning:

1. Examine the internal and external environments of the venture (SWOT: strengths, weaknesses, opportunities, threats).
2. Formulate the venture's long-range and short-range strategies (mission, objectives, strategies, policies).
3. Implement the strategic plan (programs, budgets, procedures).
4. Evaluate the performance of the strategy.
5. Take follow-up action through continuous feedback.

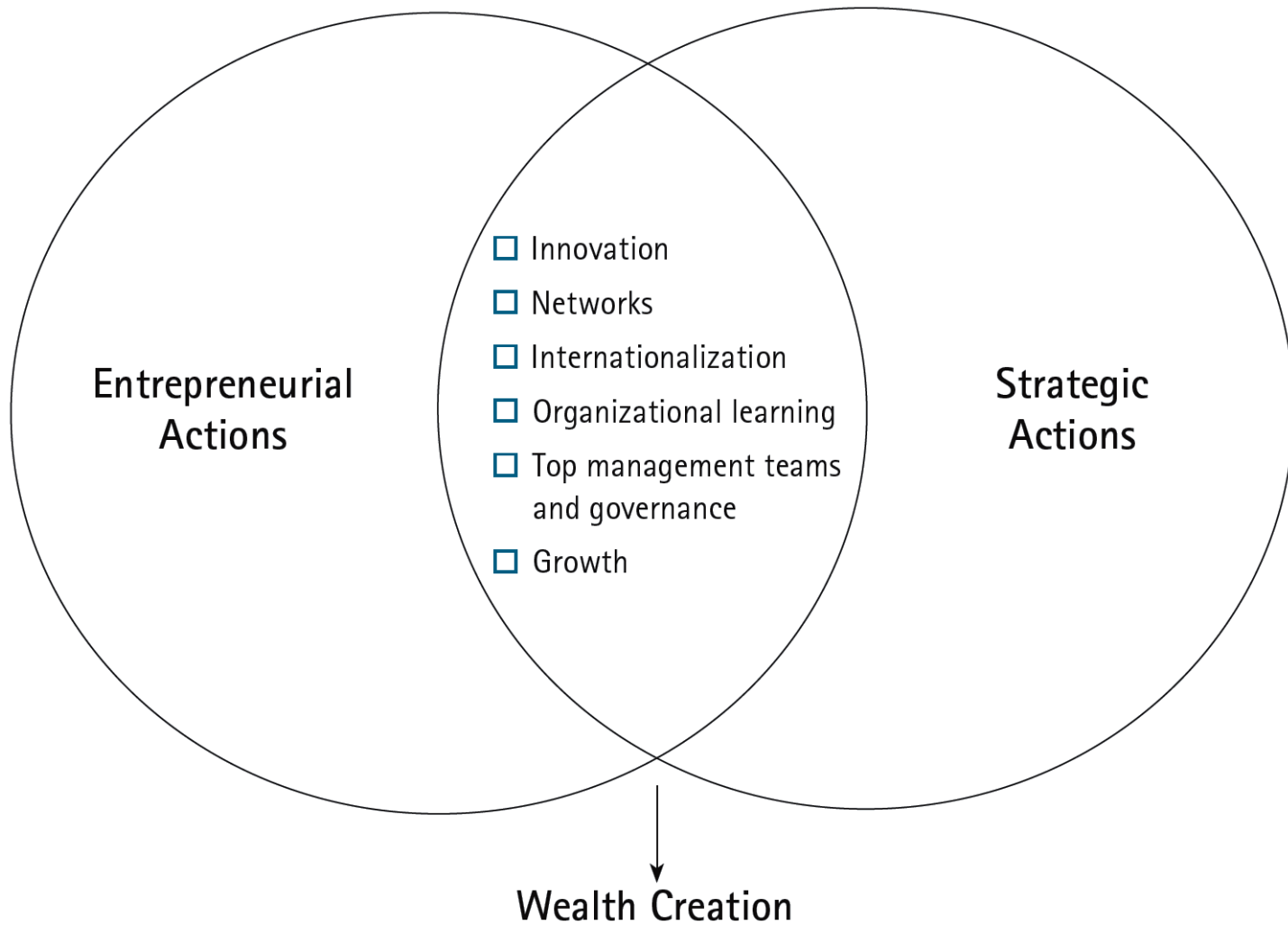


Strategic Planning Levels (cont'd)

- Strategic Planning Categories
 - Category I: No written plan
 - Category II: Moderately sophisticated planning
 - Category III: Sophisticated planning
 - Results: More than 88% of firms with Category II or III planning performed at or above the industry average compared with only 40% of firms with Category I planning.
- All research indicates:
 - Firms that engage in strategic planning are more effective than those that do not.
 - The planning process, rather than merely the plans, is a key to successful performance.

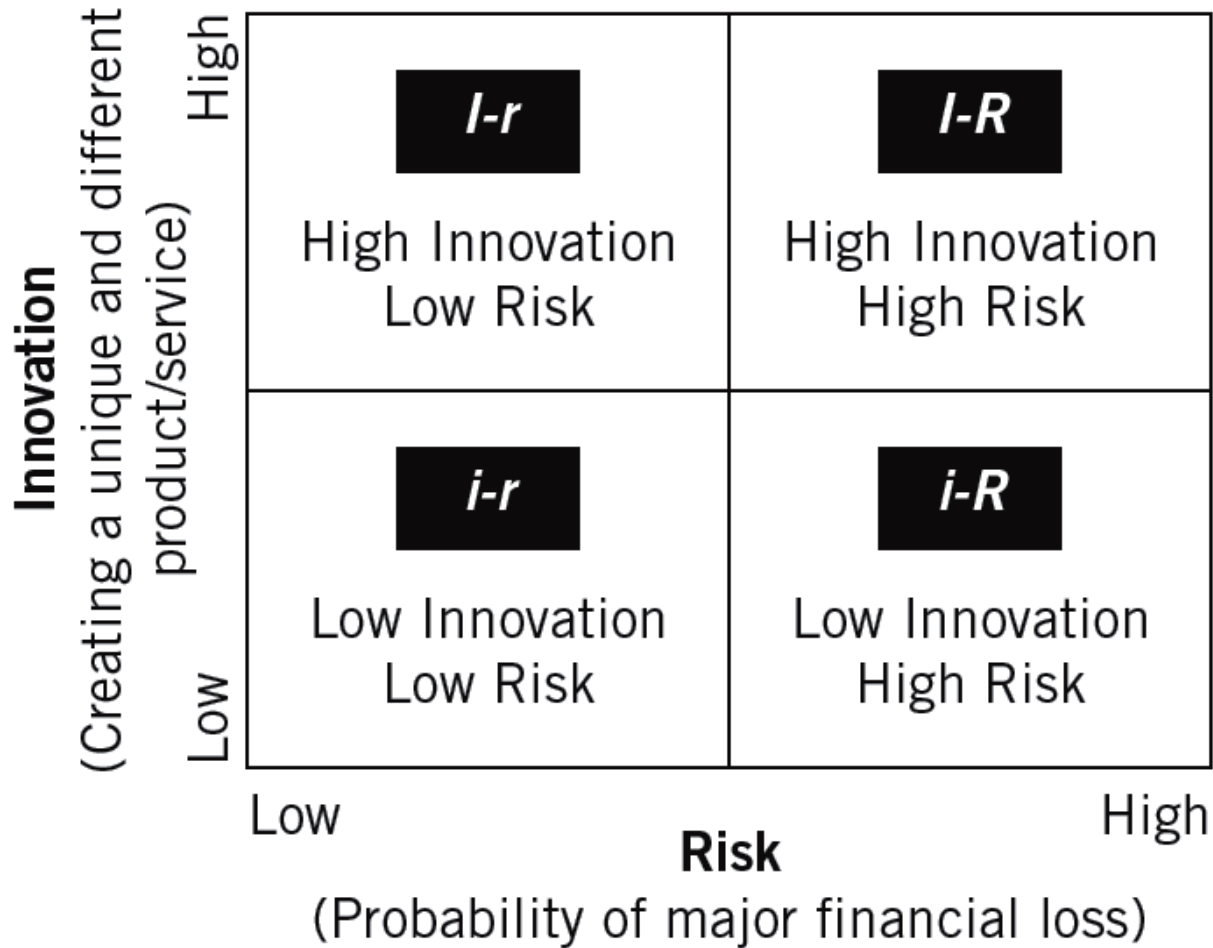
Fatal Visions in Strategic Planning

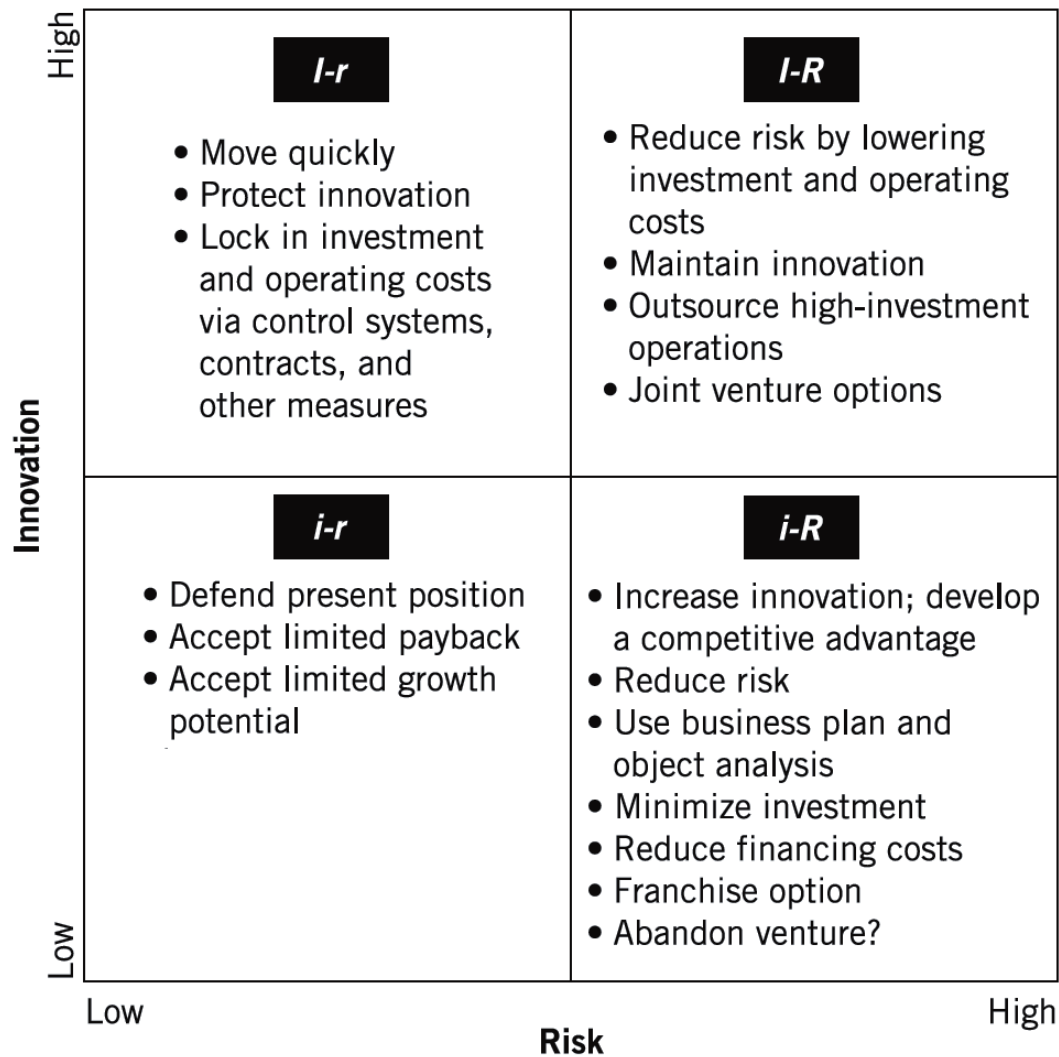
- Fatal mistakes that entrepreneurs fall prey to in their attempt to implement a strategy:
 - Fatal Vision #1: Misunderstanding industry attractiveness
 - Fatal Vision #2: No real competitive advantage
 - Fatal Vision #3: Pursuing an unattainable competitive position
 - Fatal Vision #4: Compromising strategy for growth
 - Fatal Vision #5: Failure to explicitly communicate the venture's strategy to employees



	Position	Leverage	Opportunities
Strategic logic	Establish position	Leverage resources	Pursue opportunities
Strategic steps	Identify an attractive market Locate a defensible position Fortify and defend	Establish a vision Build resources Leverage across markets	Jump into the confusion Keep moving Seize opportunities Finish strong
Strategic question	Where should we be?	What should we be?	How should we proceed?
Source of advantage	Unique, valuable position with tightly integrated activity system	Unique, valuable, inimitable resources	Key processes and unique simple rules
Works best in	Slowly changing, well-structured markets	Moderately changing, well-structured markets	Rapidly changing, ambiguous markets
Duration of advantage	Sustained	Sustained	Unpredictable
Risk	It will be too difficult to alter position as conditions change	Company will be too slow to build new resources as conditions change	Managers will be too tentative in executing on promising opportunities
Performance goal	Profitability	Long-term dominance	Growth

The Entrepreneurial Strategy Matrix



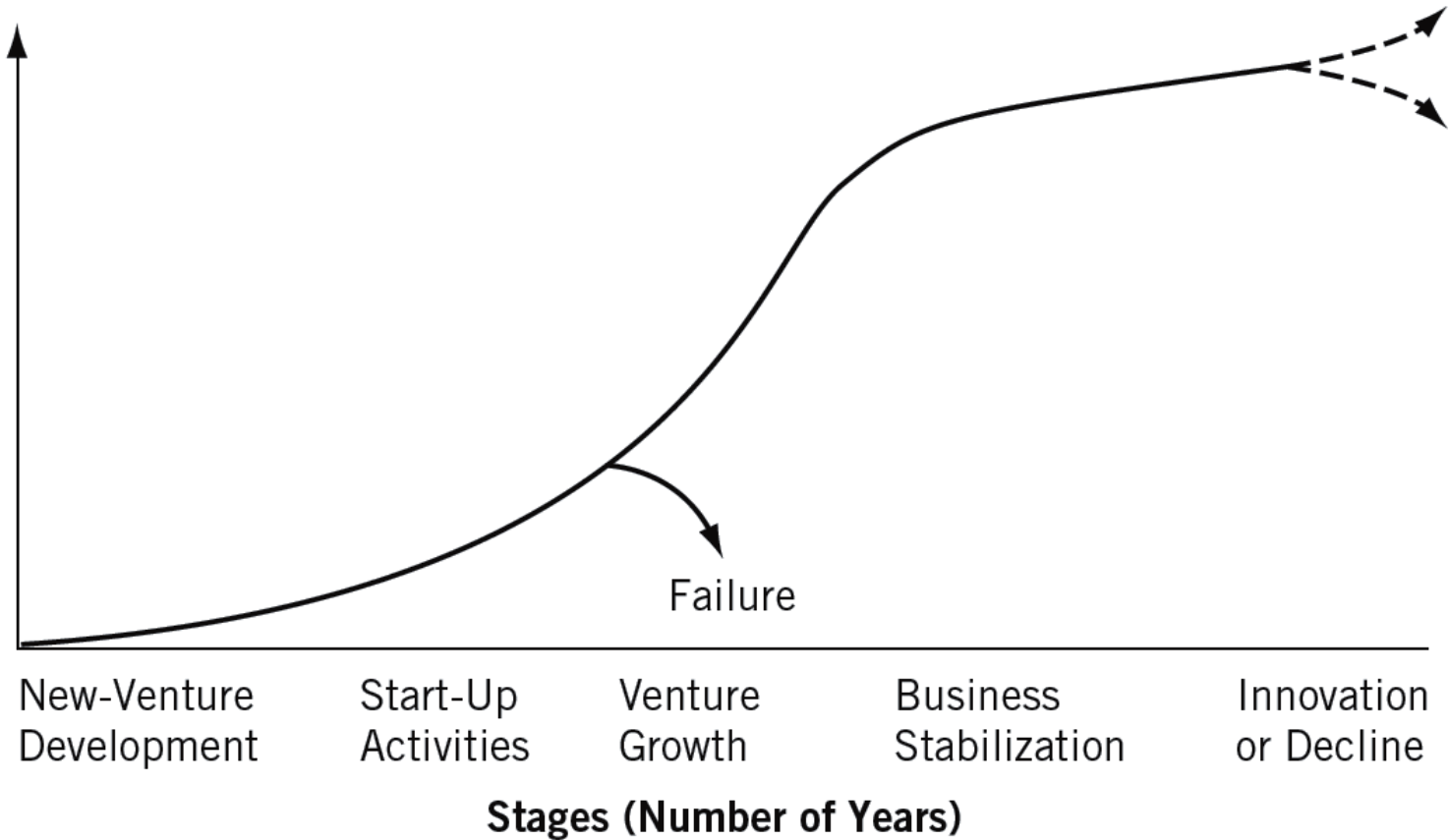


Figure

13.5

A Venture's Typical Life Cycle

Profit,
Productivity,
Revenues



Major Stages in a Venture's Life Cycle

New-venture development

Activities associated with the initial formulation of the new venture's general philosophy, mission, scope, and direction.

Start-up activities

Creating a formal business plan, searching for capital, carrying out marketing activities, and developing the entrepreneurial team.

Growth

Leadership transitions from an entrepreneurial one-person focus to a managerial team-orientation to cope the growth of the venture.

Business stabilization

A "swing" stage that precedes the period when the firm either swings toward greater profitability or toward decline and failure.

Innovation or decline

The firm either continues its success by acquiring other innovative firms and develops new products/services or it goes into decline.

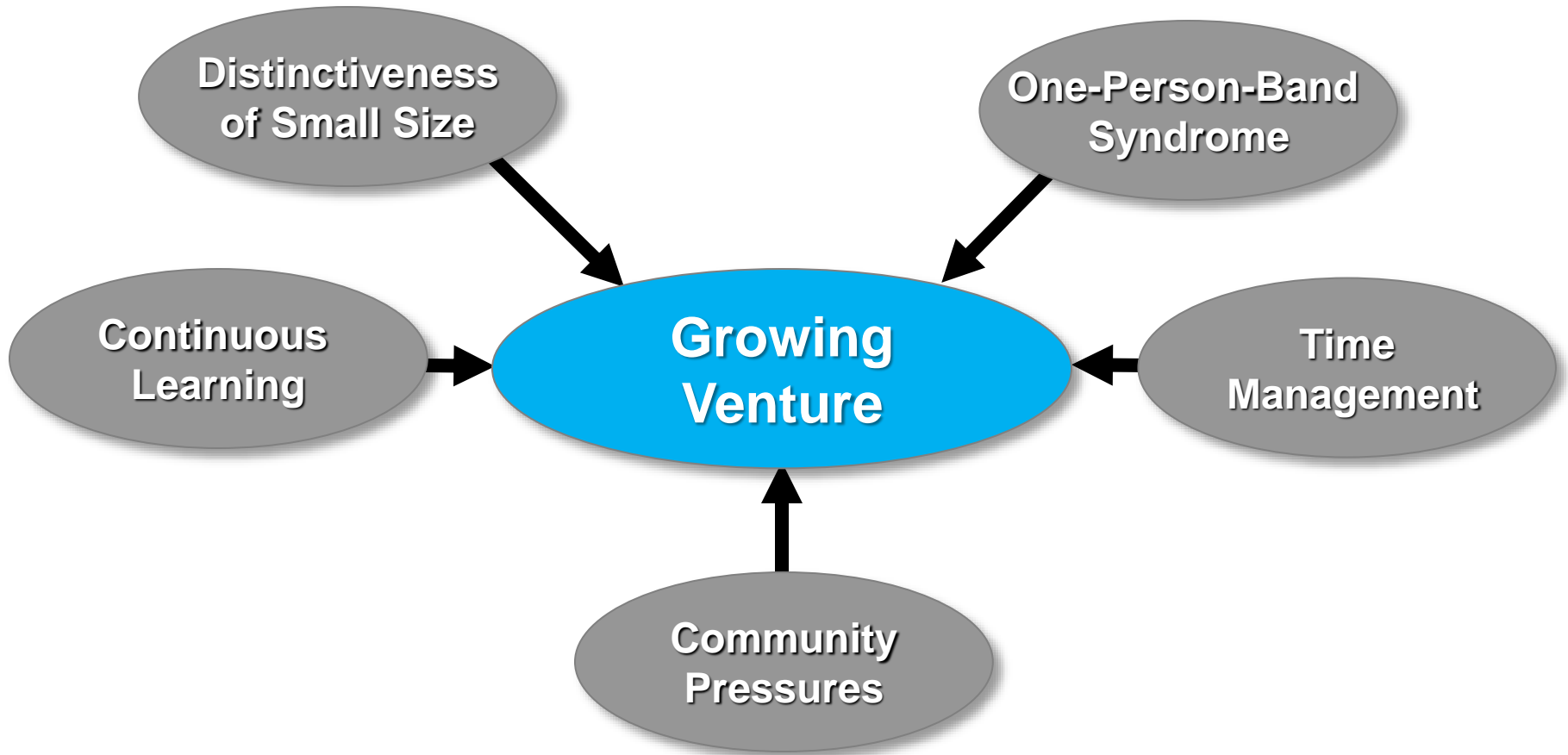
Handling Environmental Changes and Trends

- Internal Constraints on Managing Growth
 - Lack of growth capital
 - Limited spans of control
 - Loss of entrepreneurial vitality
- Key Steps in Managing Growth and Change:
 - Creating a growth task force
 - Planning for growth with strategies
 - Maintaining a growth culture
 - Developing an outside board of advisors

Building an Entrepreneurial Company in the Twenty-First Century

- Building Dynamic Capabilities:
 - *Internally*—through the utilization of the creativity and knowledge from employees
 - *Externally*—through the search for external competencies to complement the firm's existing capabilities
- What Entrepreneurs Do:
 - Perceive a unique opportunity
 - Pursue the opportunity
 - Believe that success of the venture is possible

Unique Managerial Concerns of Growing Ventures



Planning the Growth of Your Business

Growth is the natural by-product of a successful start-up.

Some commonly used growth strategies include intensive growth strategies, integrative growth strategies, and diversification strategies.

Intensive Growth Strategies

A business that wants to increase sales to its target customers might use **intensive growth strategies**.

intensive growth strategies

growth strategies that take advantage of an opportunity within a current market, using market penetration, market development, and product development

Market Penetration

Market penetration involves getting customers to use your products more often, attracting competitors' customers, and finding people in your present market not using your products.

market penetration

an attempt to increase sales in a business's current market

Market Development

Franchising is one way to grow a business through **market development**.

market development
an attempt by a business to reach new locations for its products

Product Development

Product development is the introduction of new or improved products to the marketplace.

In most industries, companies must continually develop new products to keep customers interested.

Integrative Growth Strategies

When a product manufacturer opens retail stores it is employing **integrative growth strategies**.

integrative growth strategies growth strategies that allow a company to expand within the industry by growing vertically or horizontally

Vertical Integration

A business can use **vertical integration** suppliers or distributors of its products.

vertical integration

the merging of companies that are in the same distribution chain of a product, either by acquiring suppliers upstream in the distribution channel or acquiring distribution outlets downstream in the channel

Horizontal Integration

Horizontal integration is buying competitors.

horizontal integration increasing a business's market share and expanding by buying up competitors

Diversification Growth Strategies

Businesses often use **diversification growth strategies** when they have exhausted opportunities within their present industry.

diversification growth strategies a growth strategy that involves investing in products or businesses that are different from a company's own products, using synergistic, horizontal, or conglomerate diversification

Diversification Growth Strategies

Types of diversification growth strategies are:

- synergistic diversification
- horizontal diversification
- conglomerate diversification

Synergistic Diversification

A bakery owner who purchases a restaurant to showcase his or her baked goods is using a **Synergistic diversification** growth strategy.

synergistic diversification a diversification growth strategy that involves finding new products or businesses that are technologically compatible with a company's products or business

Horizontal Diversification

If a business chooses **horizontal diversification**, it looks for a product or service that it can sell to its present customers.

horizontal diversification a diversification growth strategy that involves seeking products that are technologically unrelated to a company's own products or business

Conglomerate Diversification

A company may use **conglomerate diversification** to try to cut costs or provide convenience for its customers.

conglomerate diversification a diversification growth strategy in which a business seeks products or businesses that are totally unrelated to its own products or business

1. Evaluate the three primary methods for growing your business.

Intensive strategies take advantage of opportunities within a current market. Integrative strategies allow for expansion within the industry. Diversification strategies involve investing outside a business's market or industry.

2. Describe intensive growth strategies that can be used to take advantage of opportunities within a current market.

They include market penetration, which is an attempt to increase sales in the current market; market development, where a company expands geographically; and product development, where a company develops and introduces new products to existing customers.

3. Discuss integrative growth strategies that can be used to expand a business within its industry.

A business can grow vertically (acquire suppliers and distributors) or horizontally (increase market share and buy up competitors).

4. Explain diversification growth strategies that can be used to take advantage of business opportunities outside a business's market or industry.

With diversification growth strategies, a business invests in products or businesses that are different from their current ones. With synergistic diversification, a business finds new products that are technologically compatible with its line. With horizontal diversification, a business seeks products that are technologically unrelated to what it has. Conglomerate diversification involves looking for different products or businesses.

Challenges That Come with Growth

Factors affecting business growth include:

- target market characteristics
- industry innovativeness
- ability to delegate responsibility
- entrepreneurial mindset
- systems and controls

Challenges That Come with Growth

There are many challenges of having multiple business sites, including:

- business management
- image (marketing)
- accounting
- effects on record keeping

Challenges That Come with Growth

When financing the expansion of your business, try the same sources you used at start-up. Some of those sources include:

- personal savings
- friends and family
- private investors
- banks

The Process of Raising Money

Growth is costly, and it takes money to raise money.

Remember that raising money takes time, your deal may not work out, and you may have to buy out your initial investors.

Types of Growth Funding

Three types of growth funding are:

- private placement
- public stock offering
- employee stock option plan

Private Placement

A business that plans to raise money by **private placement** may have to register the private placement with the SEC.

private placement a way to earn money by selling investment interests in a business to private investors

Private Placement

When choosing private placement as your means of raising money, you need to develop a **prospectus** for investors.

prospectus a formal document that details risks involving in the private offering; its purpose is to give investors the information they need to make informed decisions

Public Stock Offering

Only corporations can raise money with a **public stock offering**.

public stock offering
the sale of shares of stock on a public stock exchange

Employee Stock Option Plan

To raise money with an **employee stock option plan (ESOP)**, a business must have minimum employees and revenues.

employee stock option plan (ESOP) a source of financing in which a company gives its employees the opportunity to buy a portion of the business

1. Describe the challenges that come with growth.

Growth means becoming distanced from customers and employees. A business must decide whether to transfer its present image to the new location or establish a different image. A business must decide whether new stores will operate independently or be controlled by the main store. Expansion also requires additional managerial staff. With expansion, record-keeping requirements become more complicated.

2. Explain what it takes to acquire growth capital.

An entrepreneur can try the same sources used to start the business—personal savings, friends and family, private investors, and banks. However, the amount needed to grow the business is often greater than that required at start-up.

3. Discuss the types of growth funding.

Types of growth funding include using internal cash flows, selling investment interests to private investors, making a public stock offering, and offering employee stock option plans.

Ansoff Matrix

What is the Ansoff Matrix?

The Ansoff Matrix is the base to compare the relationship between General Strategic Direction and Marketing Strategies.

Ansoff's Matrix

- This matrix was developed by Igor Ansoff
- It is a framework for identifying corporate growth opportunities
- Two dimensions determine the scope of options, namely products and markets
- Four generic growth strategies are identified:
 - **Market penetration:** more of the same to the same customers
 - **Market development:** new customers for existing products
 - **Product development:** new products for existing customers
 - **Diversification:** new products and new customers

Ansoff's matrix and risk

- The greater the degree of newness the greater the risk
- Hence:
- Market penetration - little risk involved
- Market development - moderate risk
- Product development - moderate risk
- Diversification - high risk because both product and market are new and unknown

Example 1 - Growth of Tesco

- Market penetration
 - Increase in its share of the grocery business at the expense of Sainsbury's and Asda
- Market development
 - Movement into the convenience store market
 - Expansion abroad
- Product development
 - Expansion into petrol sales
 - Development of financial services
- Diversification
 - Today Tesco is so all embracing that diversification would have to involve something entirely outside Tesco's current range of activities and sold in foreign markets or to business customers

Market Penetration

- Aim of the strategy:
 - To maintain or increase share of the current market with current products
 - To secure dominance of a growth market or restructure a mature market by driving out competition
- Market penetration involves an increase in sales of existing products to existing markets - selling more of the same to the same people
- But it is difficult to achieve growth through increased market penetration if the market is saturated
- In a stagnating market increase in sales is only possible by grabbing market share from rivals. Hence competition will be intense in such markets
- Risks are low but the prospects of success are low unless there is strong growth in the market

Market penetration strategies

- How is increased market penetration achieved?
 - Increase usage by existing customers
 - Attract customers away from rivals
 - Gain market. share at the expense of rivals
 - Encourage increase in frequency of use
 - Devise and encourage new applications
 - Encourage non buyers to buy
- Market penetration requires realignment of the marketing mix

Use market penetration when...

- The market is **not** saturated
- There is growth in the market
- Competitors' share of the market is falling
- Increased volumes lead to economies of scale
- There is scope for selling more to existing customers

Market development

- This involves
 - Selling the same product to different people
 - Entering new markets or segments with existing products
 - Gaining new customers, new segments, new markets
 - Entering overseas markets
- Market development will require changes to marketing strategy e.g. new distribution channels, different pricing policy, new promotional strategy to attract different types of customers

Market development

- Market development is used when...
 - Untapped markets are beckoning
 - The firm has excess capacity
 - There are attractive channels to access new market
- Market development involves moderate risk - there is a lack of familiarity with customers but at least the product is familiar

Product development

- This is the development of new products for the existing market
- New products come in the form of:
 - New products to replace current products
 - New innovative products
 - Product improvements
 - Product line extensions
 - New products to complement existing products
 - Products at a different quality level to existing products

Product development

- Product development is used when:
 - The Firm has strong R&D capabilities
 - The market is growing
 - There is rapid change
 - The firm can build on existing brands
 - Competitors have better products
- But new product development is costly and there are moderate risks associated with this strategy

Diversification

- Diversification in the Ansoff Matrix means:
 - New products sold to new markets
 - New products for new customers
- It is a risky strategy because it involves two unknowns
- Therefore new products and new markets should be selected which offer the prospect for growth which the exiting product market mix does not
- One problem is to identify real life examples of firms developing new products for genuinely new groups of customers
- Diversification can be sub-divided into related and unrelated

Related diversification

- This is development beyond present product market but still within the broad confines of the industry
- Markets and products share some commonality with existing products
- Therefore it builds on assets or activities which the firm has developed
- Related diversification can also be seen as synergistic diversification since it involves harnessing exiting product market knowledge
- This closeness can reduce the risks associated with diversification
- Example: banks developing insurance products

Example: Product mix at PC World

- PC World (part of the Dixons/ Curry's group) has grown through market penetration (new stores), product development (new products) and related diversification
- In the early days, the stock consisted of PCs and accessories
- Then space was devoted to digital photographic products.
- After that, iPods and similar products became major an important part of the product range
- Now with flat screen and high definition TV they are expanding into this market
- All these products are linked in that they involve digital technology. These developments could be classed as product development or, especially if they bring new people into the store, it could be seen as related diversification

Related diversification

- **Horizontal diversification:** when new products are introduced to current markets
- **Vertical diversification:** when an organisation decides to move into its suppliers or customer's business to secure supply or to firm up the use of products in end products
- **Concentric diversification:** when new products closely related to current products are introduced into new markets
- The product might be new but is it genuinely diversification into new markets?

Unrelated diversification

- Features of unrelated diversification
 - Growth in products and markets that are completely new
 - Development beyond the present industry into products and markets which bear little relation to the present product market mix
 - No commonality with existing products and markets
- It is also known as **conglomerate diversification**:
When completely new, technologically unrelated products are introduced into new markets
- As it represents a departure from existing products and markets it does represent considerable risk

Examples of unrelated diversification

- In each case consider whether it is genuinely unrelated or whether there is some link be with existing products or markets
- Water supply companies acquiring or developing hotel businesses
- Granada TV group developed motorway service areas (now sold off since the merger of ITV)
- The involvement of Pearson Group (a publisher) in television production companies and running an exam board (Edexcel)
- British Gas offers home emergency services covering plumbing and electrical problems
- Hollywood film studios own hotels, casinos and cruise liners