ACHIEVE SUSTAINABLE SCALE

Growing according to plan

Most companies seek to expand their business segment to remain competitive. However, greater size at any price is rarely a good idea. Instead, companies should rather consolidate their position by adopting a long-term strategy.

'Sweet flowers are slow and weeds make haste,' in the words of William Shakespeare. Hasty or ill-considered actions were clearly anathema to the English playwright. He was much more impressed by well thought-out planning and execution of a project. Applied to economic life, this principle fits the concept of sustained growth. Instead of expanding their scope rapidly and at any price, companies should carefully plan their position. 'Growth is essential for long-term success in the market. But problems may also occur when expansion is too rapid and essential steps are skipped or important aspects not considered,' says Peter Englisch, partner of the auditing company EY (see interview, page 13).

Define objectives: Check feasibility of innovations

Choose a suitable strategy

The basis is a clearly defined growth strategy which is geared to the company's actual situation and the anticipated challenges. Basically, there are four strategies:

1. Grow in the existing market with available products or services
2. Develop new markets with existing products
3. Capture existing markets with new products
4. Establish new offers in new markets

The management establishes the growth strategy based on comprehensive analytical services. What are the strengths and weaknesses of the company? Are adequate staff and financial resources available? What do

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LARGER, FASTER, FURTHER

Sustained growth is not everyone's cup of tea. Internet companies frequently focus on the strategy of: 'Think big' – don't do things by half measures. Amazon for example: For years the online retailer concentrated essentially on increasing sales and market shares and overwhelming the competition, which was a far cry from achieving profits. However, this was only possible with billion dollar investments. It is only about a year ago that the group began reaping the fruits of its hyper-growth and posting profits.

Overview:
Growth is a continuous process of adaptation

RISKS RESULTING FROM UNSCHEDULED GROWTH

Source: Epicor SoftwareCorporation

89 %

In 2015 nine out of ten companies were surprised by unscheduled growth

48 %

Just under half the managers feared negative consequences of growth

45 %

Almost one in two people found unscheduled growth to be a challenge

Many companies around the world were exposed to considerable risks in 2015 because of surprising growth, according to an international survey of 1,800 managers. As a consequence of unscheduled growth, many of those questioned feared that growth could put great pressure on operations, thereby jeopardising product quality and customer satisfaction. An agile corporate structure helps when preparing for bursts of growth, so it is possible to react quickly and systematically to new developments.

customers demand? How do competitors behave? As growth is a process of continuous adjustment, the strategy must be flexible enough to be adapted to changing conditions, such as technical or legal innovations.

A gradual process, not one flash of genius

Innovations are vital drivers of growth. That's why it is so important to create a corporate climate, where new ideas can emerge. One aspect is employees, who are capable of working creatively and independently. 'The better and more motivated they are, the stronger the growth of a company,' according to Mr Englisch. Firms should make themselves more attractive to outstanding managers and employees, using targeted incentives. Possible ways of achieving the long-term commitment of employees, in addition to appropriate remuneration, include flexible working hours, individual training offers, freedom of action and flat hierarchies.

In most cases an innovation does not spring from a flash of inspiration of an individual but rather comes about as a result of a process. Therefore, innovation projects require thorough preparation. To start with, there is a precisely defined objective, for example, improved ease of use of an existing product. Then, it is a matter of testing the innovation for the three essential points of feasibility, market acceptance and potential earnings. Because ▶

Draw up a strategy:
Expand the core business bit by bit

Create security:
Anyone building a strategic partnership, should check out the potential counterpart closely in advance

SUCCESSFUL WITHOUT GROWTH?

There is also a backlash against the conventional growth economy: Growth-neutral companies, which are to be found mainly amongst small and medium-sized businesses, do not focus on increasing key business performance indicators, such as sales, profits or the number of employees. Amongst these companies, the bosses focus on individual targets: For example, they wish to offer particularly high-quality products, strengthen the regional economy or cultivate personal contact with their employees.

innovations grow at interfaces, the individual divisions of a company, such as the Development Department, IT, Sales & Marketing, must work closely together.

So that a company can grow organically, in other words, as a result of its own efforts, it will have to increase its value creation in the individual company divisions. One option is to expand the core business with new or improved offers. However, the further a company moves away from its established business segment, the greater the challenges. The company will then have to find its way in a new market governed by different 'rules of the game'. Therefore, it is often sensible to grow slowly from the core business outward, gain experience and develop the business step by step based on this newly acquired know-how.

Growth through optimisation

Another option is to optimise the company divisions. Take the example of customer management. The company wants to satisfy its customers to win their long-term loyalty and attract new buyers too. Possible measures include professional complaint management, involvement of important customers in product development processes or even active customer contacts through social media.

However, it is not always advisable to take the growth route alone. It often makes sense to co-operate with another company. Exchanging information or goods increases know-how, optimises work processes and in the long-term consolidates the company's position amongst the competition.

When companies work together, both sides can compensate for a lack of resources or capacity. In this way, very highly specialised firms have the opportunity to expand their core skills and make use of the experiences of their partner. For very large projects, co-operation is essential in any case. Often, an organisation on its own lacks the finance, sales network or technical knowledge.

Give considerable thought to selecting partners

What type of co-operation should be considered? In principle, a partnership is possible in all company divisions. Co-operation

Hans-Werner Scherer
Member of the EOS Group's Board of Directors

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We concentrate on promising countries and withdraw from markets which do not meet our expectations.

with suppliers and sales partners is particularly common. This helps companies to optimise their production processes and lead times as well as lower costs. However, binding a company contractually to a single supplier or sales partner may end up in unwanted dependency, for example, if the partner increases its prices.

Carefully check potential buyers

Another possible method of co-operation is to purchase a company. Because this option requires large financial resources, it is of particular interest to larger companies. In return, this offers the opportunity to achieve growth targets more efficiently – particularly if the potential of the parent company is exhausted. Important: The takeover candidate must be optimally suited to the growth strategy of the company.

Therefore, before searching for an appropriate target, the parties responsible should produce a detailed qualification profile. What characteristics does the potential buyer have to have? What benefit should the take-over achieve? What are the overriding objectives to be pursued by the purchase? Once a company has been found, this is followed by a close look at its strengths and weaknesses, the know-how available, market position, marketing strategy and corporate culture. As a takeover is extremely complex, companies should seek support from external experts, such as management and taxation consultants.

Withdrawal as an opportunity

There are options other than a well thought-out takeover to keep a company on a growth trajectory. It may be useful to split off parts of your own company, because they may not fit in with the growth strategy or are not profitable. Finally, in the case of a sustained alignment, it is not a matter of growth at any price but of the long-term well-being of the company.

This is a corporate philosophy, which also characterises the EOS Group. Hans-Werner Scherer, Member of the EOS Group's Board of Directors says: 'It is part of our strategy to concentrate on promising countries and if necessary to withdraw from markets, which do not meet our expectations.' In this way, the funds released can be put into promising and future-oriented projects – thereby laying the groundwork for healthy growth and sustained success. ■

Peter Englisch:
Global Leader Family Business at EY

INTERVIEW

'Even the status quo requires growth'

Peter Englisch, Global Leader Family Business at the auditing company EY, knows how companies can achieve sustained and successful expansion of their business.

Why is growth so important for companies?

Companies have to grow if they are to remain competitive and survive in the long-term – this applies just as much to family-run small and medium-sized companies as to large groups of companies. Even to maintain the status quo, a company needs growth. A simple example: Staff salaries rise continuously. So as to compensate for this increase in expenditure, the company must grow by a similar amount.

How would you define the concept of sustained growth?

Sustained growth is based on clear corporate values. Therefore, every company should define the purpose of its business activity. For example, a company in the healthcare sector can set itself the target of continuously improving people's health. It is not short-term profit that is the main objective, but rather a long-term overriding aim. If the company is serious about this, it must act accordingly and invest in such aspects as staff or new methods.

What are the decisive factors leading to successful growth?

Over many years, EY has analysed the most successful companies in the world and identified seven factors driving long-term success. The important factors are an open corporate structure, which puts the employee at the centre, the integration of IT-based technologies into existing business models, consistent alignment of the business with corporate objectives, strengthening customer relationship, solid finance, strategic partnerships with other companies and modern risk management. To enable companies to grow sustainably, they have to account for these factors and put them in a balanced relationship to each other.

What particular advice would you give small and medium-sized businesses?

Learn from others! Exchanging experience with companies in the same industry is tremendously important. Management consultants and chambers of commerce can help companies to make appropriate contacts. ■