

## Achieving Profitable Growth

NO MATTER YOUR BUSINESS, PROFITABILITY IS A CRITICAL MEASURE OF CORPORATE HEALTH. AND GROWTH—MORE ACCURATELY, PROFITABLE GROWTH—IS VITAL FOR LONG-TERM SUCCESS. WHILE THIS MIGHT SOUND OBVIOUS, ACHIEVING PROFITABLE GROWTH IS OFTEN EASIER SAID THAN DONE.

So what steps can you take to ensure that you're growing profitably? When companies seek to expand, they usually start by looking directly to markets or products, and begin the growth process by asking themselves what type of business they should be in. But according to businessmen James Ashton, Frank Cook, and Paul Schmitz, writing for the *Harvard Business Review*, this is the wrong way to start. What companies should first ask themselves, the former CEOs and consultants say, is, "What can we make of the business we're in right now?"<sup>1</sup>

It's not that turning to new products or markets is a bad method for growth—it's vital, in fact. But trying to make these moves too early, before you've ensured the long-term stability of your current business, can be detrimental.

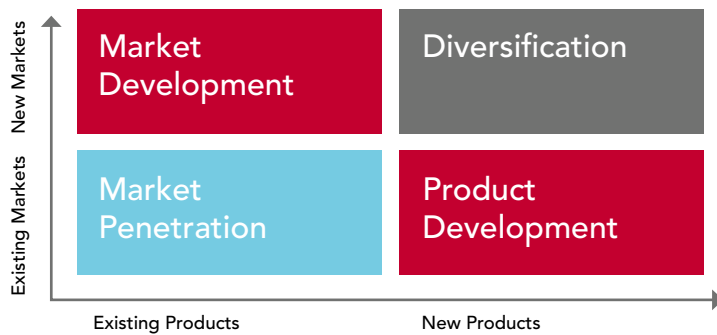
Companies—especially those already turning moderate profits—want to believe their businesses operate seamlessly. The truth is an objective assessment might say otherwise. As Ashton, Cook, and Schmitz point out, "Time and again, we have seen companies that hadn't achieved the operational excellence needed to allow their existing businesses to hum along without undivided management attention."<sup>2</sup> What we mean to convey is that now is the time to be sure of your operations, not once you've set your sights and capital on developing a new product or moving into a new market segment.

Furthermore, the growth methods you will see outlined here should not be seen as standalone concepts, but as steps in a comprehensive strategy for growing profitably. Growth is a process, after all. Once you have verified that your current business is healthy and stable, this system will provide you with a fundamental sequence for profitable growth. And as you continue to grow, you will be able to move meaningfully from one step to the next in order to further enhance profitability.



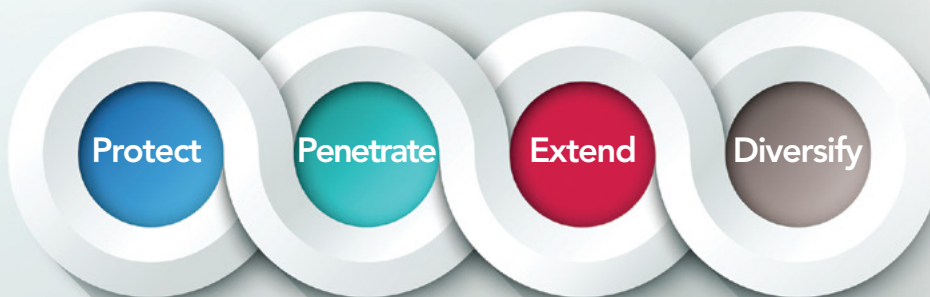
## The Ansoff Matrix and a System for Profitable Growth

After assessing your company's current operations, you can begin to explore some of the age-old strategies to profitable growth, all of which stem from the following growth matrix that was first introduced by Igor Ansoff.



Each of the four strategies above has its own advantages and risks, so it is important to evaluate the opportunities available to your company and to discern where these opportunities match up on the strategic matrix. But this is not to suggest that one strategy alone is enough. In fact, all of these strategies work in tandem, and when doing long-term strategic planning, it is often wise to consider multiple strategies.

The path we will discuss—echoed in *The Harvard Business Review's* article "Uncovering Hidden Value in a Midsize Manufacturing Company,"—takes the standard Ansoff Matrix and uses it to establish a genuine roadmap for midrange companies looking to grow. According to this path, the first step is to "protect your existing business. After that, *penetrate* further into existing market segments with existing products or upgrades. Then, *extend* the business by creating new products for existing segments or by entering new segments with existing products. Finally, *diversify* into new markets with new products."<sup>3</sup>



We have already touched on the importance of shoring up your current business before going forward. The remainder of this paper will give you a clearer understanding of the steps involved in this system and how you might partner with experts whose invaluable guidance may mean the difference between success and failure.

## **STEP 1: MARKET PENETRATION**

Generally, you will increase profitability with market penetration while continuing to sell existing products to existing markets. This is a low-risk strategy that, when done correctly, can boost your profit margins. There are, however, many who try to accomplish this by slashing prices in an attempt to increase volume, which does not provide a lasting solution since competitors can simply respond in kind.

A better way to penetrate the current market is to focus on operational excellence initiatives that cut costs, eliminate waste, improve quality, and streamline workflow. As Ashton, Cook, and Schmitz have observed, "most businesses are still a long way from being all they can be, and they can usually benefit from operational improvements."<sup>4</sup> Reduced costs mean higher profits on goods being sold, and improvements to quality and service provide opportunities for you to offer customers added value without lowering your price.

Penetrating the market in this way—by strengthening your operational standards—ensures a good, firm footing from which you can branch out to the next part of the pathway.

## **STEP 2: EXTENSION BY MARKET DEVELOPMENT OR PRODUCT INNOVATION**

Once you have solidly penetrated the market, you will want to look toward extending into newer markets or developing new products for your current market.

First, with market development, you will achieve growth by selling existing products to new markets. Whether you want to expand your geographical reach domestically, within the same vertical market, explore exports, or venture into new verticals, you will be moving into unfamiliar waters. Doing so requires a more complex strategy than if you were simply trying to penetrate an existing segment. Here, effective planning and execution are crucial, and the first step in developing an effective plan is to understand the market. This is achieved through accurate market assessments and connections in the new market segment.

A second extension strategy to focus on is new product innovation—creating new products for existing markets. Taking a product from concept to a profitable offering in an affordable and timely manner does present challenges to most organizations. But the issues may not be quite what you'd expect.



PolymerOhio specializes in helping companies achieve greater operating efficiency by developing a corporate culture that strives to eliminate waste, rework, and other unnecessary tasks. Our comprehensive metrics and business operations assessments will determine where you can employ lean practices to reduce manufacturing costs, optimize supply chain distribution, and attain a competitive advantage.



As Larry Selden and Ian McMillan wrote in their *Harvard Business Review* article, "Manage Customer Centric Innovation—Systematically," despite companies' best efforts "their approaches to innovation often don't grow the top line in the sustained, profitable way investors expect."<sup>5</sup> The two business professors point to what they the "growth gap," derived from the fact that companies pour money into R&D but rarely take the time to understand what the customers want.

This idea is reinforced by Ashton, Cook, and Schmitz, who call overcoming the gap "determining why you win."<sup>6</sup> Because many companies have a faulty understanding of why customers keep coming, figuring out the answer to this question is central to profitable innovation. You must look closely at your customer base, and leverage your relationships to identify additional needs that could be met with new products.

Ask yourself the following questions:

- How well do we really understand the motivations of our customers?
- Do our customers really want and need the things we think they want and need in a product?
- What new features or products would our current customers find desirable?
- Additionally, moving forward, how will we manage our innovation programs to ensure that products with the greatest potential receive the highest priority? What processes will we use?

Again, profitability will be achieved through the proper understanding of the market and of how you will efficiently create new products for it.

At PolymerOhio, we can help you assess your market and strengthen your capacity to develop new products by fostering a culture of creativity. Our consultants will show you how to build a framework of discipline around the innovation process in order to efficiently take a product idea from concept to completion.

Likewise, we can help develop and implement the technology management program that best fits your organization's size and resources, as well as help improve your use of resources, resulting in a higher return on deployed capital.



PolymerOhio can help you conduct assessments of prospective new markets, expand industry verticals, and establish connections with companies acquainted with new geographies.

If growing exports becomes part of your strategy, we can show you which countries provide the best opportunities for your products and help you develop strong ties with market channels.

Additionally, as an affiliate of the Ohio Manufacturing Extension Partnership (MEP), we are in a unique position to connect your company to state resources and local programs to help grow your export business.

### STEP 3: DIVERSIFICATION

With this final portion of the matrix, you will increase profitability by creating entirely new products for entirely new markets, combining elements of both product and market development.

Because both aspects of diversification are new, you will naturally find yourself on new terrain. To succeed, you need everything we have covered, from operational excellence initiatives at the front end to analysis of the new market and guidance on product innovation along the way. Success will be achieved, or at least the risk mitigated, by moving along the strategic pathway as we have suggested. In this way, by the time you're ready to diversify, you will have already analyzed new markets and targeted new products for innovation. You will know your competition, the potential for growth, and be able to identify customers' needs. You will have a program for effective product innovation and you will have long ago secured your original business operations.

There will still be challenges, and to overcome the hurdles of planning for brand new products in a brand new market, it may make the most sense to pursue the idea of acquisition or joint venture. Upfront, this tends to require a higher capital investment. However, it is also a lower risk approach, as the new company brings with it an established customer base, as well as knowledgeable staff and the potential of having one fewer competitor in the market.



If diversification is for you, PolymerOhio's market assessments and product innovation guidance can help your company understand new markets and generate new product ideas. We also provide expert analysis and consultation to companies before they make the investment in new acquisitions.



## CONCLUSION

As we mentioned in the beginning, profitable growth is critical for the continued success of any company. And it is certainly achievable—if you allow for the correct roadmap. As other seasoned businessmen have suggested, be sure to analyze your current business operations thoroughly before leaping into a growth strategy. And when it is time to focus on profitable growth, you can attain it through the method we've outlined here: understanding profitable growth as a sequence of related steps. The key is not to isolate and adhere to just one of these well-respected growth strategies, but to view them as an interlocking system and concentrate on each step of the process to ensure the greatest success.



### ABOUT POLYMEROHIO

PolymerOhio's mission is to accelerate growth, competitiveness and innovation in Ohio's polymer industry. We serve as a network hub for a broad range of industry participants beyond manufacturers and suppliers, including universities, technical institutions, government agencies and economic development organizations. We are a resource, connector, innovation champion and collaboration builder for Ohio's polymer industry.

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#### References:

- <sup>1</sup>Ashton, James E., Cook, Jr., Frank X., and Schmitz, Paul. "Uncovering Hidden Value in a Midsize Manufacturing Company." *Harvard Business review*. June 2003. 12 May 2015.
- <sup>2</sup>Ibid.
- <sup>3</sup>Ibid.
- <sup>4</sup>Ibid.
- <sup>5</sup>Selden, Larry, and MacMillan, Ian. "Manage Customer-Centric Innovation—Systematically." *Harvard Business Review*. April 2006. 13 May 2015.
- <sup>6</sup>Ashton, et al. "Uncovering Hidden Value in a Midsize Manufacturing Company."