

THE COMPETITIVE EDGE

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THREE DRIVERS OF GROWTH

Offer a mediocre hot dog to your customers and you won't get many sales. Offer a great hot dog in an area where people don't like hot dogs, you won't get many sales. Offer a great hot dog with too long a wait for good service, the result again is poor sales because of your bad business design.

As the hot dog example illustrates, business growth happens only when three growth drivers are present: a potent value proposition, large-enough markets, and an effective business design. A business offering something valued highly by a large-enough market will grow rapidly if it operates according to an effective business design. If any one of these three drivers is missing, growth will be poor or absent.

Sounds obvious, doesn't it? Yet, too often, the leaders of a business neglect these drivers, focusing on other matters. They fool themselves into thinking the three drivers are in good shape.

Every business must periodically check that their growth drivers are still valid and working well. This newsletter provides more detail on the three drivers to support such an assessment.

A POTENT VALUE PROPOSITION

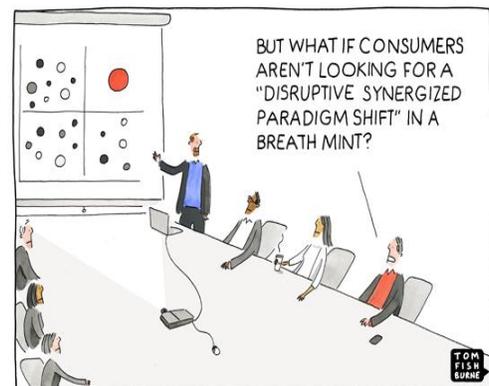
Toyota showed what a potent value proposition can do. Starting in the 1970's, they provided the U.S. market with cars dramatically superior in quality to GM, Ford, or Chrysler. This value proposition has driven Toyota's growth for over 50 years. Today, it is the largest car company in the world. To grow significantly, you must find and use a potent value proposition.

The value proposition is a description of the value an organization provides its customers through its products and services. How do you find a good value proposition?

Start by defining your current value proposition. What value does your business provide your customer? Value comes from solving problems, creating great experiences, opening up possibilities that never existed before. A Ford automobile - valuable because it solves a transportation problem, Disneyland -- valuable because it creates a great experience, GoPro cameras and services -- valuable because they open up new possibilities.

Now assess the value provided. How good is it? If less than desired, improve it. Example: our March 2014 newsletter discussed Skyworks Solutions. The electronics components maker added product design simplification for its customers. Result: 20% per year growth.

If your business serves several market segments, there could be a different value proposition for each. If you sell through distributors, identify the value proposition for the distributors and how to improve it.



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BEST MARKETS FOCUS

Profitable growth is most likely if a business focuses on the best market segments. These segments contain customers who value highly what you offer and are large enough to support significant growth over a long period. Every business serves many market segments. They differ in size and customer value perception.

To focus on the best, list all segments served and for each segment, estimate the size of the potential market and the customers' view of the value you provide relative to alternatives. Focus on the largest segments with high value ratings.

Consider also possible adjacent segments that have hidden potential. They may offer a superior path to growth. That's what happened at Marvin Steel.

In our July 2013 newsletter we described how this maker of wire mesh baskets was rescued from extinction by an act of serendipity. The company had a nice business providing the baskets to bagel stores for their bagels. Then the Chinese entered the market with baskets priced below Marvin's costs. Marvin looked to be doomed.

Out of the blue, the company got a call from Boeing. Nothing to do with bagels and totally off Marvin's radar screen. Boeing needed the baskets for small factory parts. Boeing valued the baskets much more than did the bagel maker. Marvin exited the bagel market and focused on the factory parts market. Result: tenfold increase in size and great margins.

EFFECTIVE BUSINESS DESIGN

Koo Koo Roo had a great value proposition with its Mediterranean style roast chicken, and it had a large-enough market for growth. Yet, the company failed. Why? It did not have an effective business design. The company could not generate new locations fast enough to achieve the scale needed to support fixed costs.

The business design is the set of business processes and decision rules by which a business operates. The design needs to focus like a laser on what is needed to create and deliver efficiently and effectively significant value to customers in the best market segments.

After you identify a potent value proposition and the best markets for growth, be sure the business design is right for that value proposition and those markets. To do so, first define the current design. Then rate its performance in delivering value needed. Identify deficiencies, then cure them. Better growth will follow.