



# Using the Components of Growth to Drive Market Share and Profitability

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# Frameworks to Drive Profitable Growth

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## Introduction

In difficult economic times, companies are thrilled to match their financial performance from the prior year. In more positive economic environments, companies set growth targets and task their organizations to achieve them. In either scenario, many companies set financial objectives and sit back and hope or assume that their organizations will achieve the results.

Frank Lynn & Associates helps companies instill discipline in their growth planning processes. We use two frameworks that focus and direct company resources to drive desired outcomes, *Components of Growth<sup>SM</sup>* and *Local Market Management<sup>SM</sup>*. Our *Components of Growth<sup>SM</sup>* framework defines how companies will achieve their financial goals. Specifically, it identifies the marketing and sales initiatives that will drive performance. The *Local Market Management<sup>SM</sup>* framework translates corporate growth strategies into plans tailored to the dynamics of local markets. In essence, it defines how companies will implement and achieve their financial objectives on a market by market basis. This framework embraces the concept that “all markets are different.” The tool guides business planners and managers through a systematic and rigorous

assessment of each market so that they can set objectives, develop tactical plans, and allocate resources appropriately. Together, these frameworks provide the structure and discipline required to drive profitable growth in both prosperous and trying economic times.

The *Components of Growth<sup>SM</sup>* and *Local Market Management<sup>SM</sup>* frameworks are introduced and presented on the following pages.

### *Components of Growth<sup>SM</sup>*

#### **Overview**

As markets mature or slow economies make top line growth goals difficult to achieve, market leaders must define focused targets, strategies, and tactics to deliver their financial objectives. The challenge in defining such strategies is to ensure that resources are focused on the right opportunities. A disciplined process to select the “best bet” opportunities is required.

Frank Lynn & Associates uses a process called *Components of Growth<sup>SM</sup>* to provide the structure to identify and assess options for growth. *Components of Growth<sup>SM</sup>* process provides a structured logic stream from which to identify and assess all potential contributors to growth. Understanding these options and evaluating them in a consistent way allows business planners to identify the potential sources of growth and the likely economic returns.

Frank Lynn & Associates’ *Components of Growth<sup>SM</sup>* framework provides a structured, systematic process to evaluate these options and it includes five steps:

- Calculate the “Gap”
- Identify the Options
- Place Bets
- Estimate Results
- Finalize the Strategy

#### ***Calculate the “Gap”***

Knowing and understanding how an organization is going to “deliver the numbers”

requires it to know the numbers. The first step of the *Components of Growth<sup>SM</sup>* process quantifies the company’s growth objective and calculates the “gap” relative to its sustainable, net base business. This step entails:

- Quantifying the firm’s growth target
- Quantifying the “normal” level of revenue that the firm can generate in a “status quo” scenario
- Calculating the “gap” or the difference between the growth target and the firm’s “normal” growth capability

While the first and last steps are simply mathematical calculations, the second step requires the company to evaluate its existing revenue base to determine what proportion of it is sustainable year over year. In markets where the demand pattern is fairly predictable (e.g., replacement markets), this estimate is relatively straightforward. In markets where it is not, a more in-depth analysis is required. For example, markets that are project-based (e.g., new construction) are sensitive to a variety of variables such as economic trends, decision influencers (e.g., architects, engineers, designers), and changing “hit rates.” In these markets, “the base business” is comprised of numerous projects, each with different project values and lengths. Companies that participate in these markets do not always have good visibility to the project pipeline and, consequently, they have difficulty projecting their “sustainable” revenue level. Nevertheless, companies must put a stake in the ground and estimate the revenue level that they believe

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they can generate using their existing sales and marketing activities.

With this estimate in hand, the company can then compare its “normal,” expected level of revenue to its revenue growth objective to calculate the gap that it must fill with incremental marketing and sales initiatives. Identifying the range of options available to it is the focus of the next step of the *Components of Growth*<sup>SM</sup> framework.

### *Identify the Options*

The number and nature of new marketing and sales initiatives required to “close the gap” (i.e., the components of growth) depends on the magnitude of it. Nevertheless, the range of options business planners often consider is illustrated in Figure 1.

- Existing products, new markets—what opportunities exist? What are the “best bet” options among these opportunities? What leverage can the company use to penetrate these new markets? What tactics can it employ to pursue these targets (e.g., development, acquisitions, alliances)? How much top and bottom line growth can they deliver?
  - New products, existing markets—what opportunities exist? What are the “best bet” options among these opportunities? What tactics can the company employ to pursue these targets (e.g., development, acquisitions, alliances)? How much top-line and bottom line growth can they deliver?
  - New products, new markets—what opportunities exist? What are the “best bet” options among these opportunities? What leverage can the company use to penetrate these new markets? What tactics can the company employ to pursue these targets (e.g., development, acquisitions, alliances)? How can the company manage the associated risk and costs? How much top and bottom line growth can they deliver?
- “Net” base business—what is the current base business? Assuming no changes, is it reasonable to assume the company will sustain it? What will cause erosion of the base? Loss of relationships? Customers leaving the market? What customer/account retention and management programs can be employed to mitigate this risk?
  - Market growth—at what rate will the market grow? How will the growth of the market affect the top line? What can be done to actively participate in this market growth?
  - Enhanced coverage, existing markets—how much of the existing market does the company currently “see”? What percentage of its existing customers’ “wallets” does it capture? How can the company enhance its presence (account and market)? Will enhanced coverage cause destructive conflict? How can the company manage conflict?

**Figure 1: Typical Components of Growth**



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From this list of options, among others, the company must select the one(s) that deliver acceptable, risk-weighted results.

### *Place Bets*

The options to drive growth essentially involve expanding the company's market reach either by enhancing its existing coverage (e.g., new geographies, new markets, new end user segments), supplementing its existing product offering, or improving its effectiveness by closing more existing business opportunities. Regardless of the nature of the growth option, a rigorous assessment of it is required to estimate the potential results and the probability that it will succeed.

Assessing market opportunities for new products or services is often the most challenging type of growth option to consider. The greatest challenge for companies evaluating these opportunities is to impose discipline in the process without eliminating opportunities prematurely. The *Components of Growth<sup>SM</sup>* methodology embraces a number of other Frank Lynn & Associates' frameworks and methodologies (e.g., *NuTech Screen<sup>SM</sup>*) to filter through potential markets and applications and identify the most promising opportunities in a systematic and rigorous manner. This disciplined approach examines market needs (i.e., what specific needs can the company address, at what competitive advantage), economics (do potential solutions offer a better value proposition than existing, acceptable alternatives), and time (how quickly can the company penetrate the market). By imposing this form of analytical discipline, the company can identify, evaluate, and select market opportunities that provide the highest probability of success.

Whether evaluating potential new markets or

other opportunities for growth, the *Components of Growth<sup>SM</sup>* framework imposes the discipline required to identify, assess, and rank the options.

### *Estimate Results*

To take the market opportunity assessment beyond estimating potential top-line impacts, the *Components of Growth<sup>SM</sup>* framework uses a business case framework to quantify the likely economic returns of the various growth options. Through financial modeling, the options are evaluated and compared on a risk-weighted basis. The business case framework enables the company to develop a pro forma financial assessment from which it can make considered decisions.

### *Finalize the Strategy*

The final step of the *Components of Growth<sup>SM</sup>* process is to reach consensus regarding the specific growth options and the overall profitable growth strategy. A key element of this step is to transition from the debate about strategy to a discussion of the implementation plan. Therefore, in addition to the overall statement and quantification of the profitable growth strategy, the *Components of Growth<sup>SM</sup>* process delivers the detailed action plan needed to realize it including:

- Action items
- Roles/responsibilities
- Metrics and measurements
- Communication and education requirements

Beyond the implementation plan, the *Components of Growth<sup>SM</sup>* framework considers potential obstacles to achieving the objectives and devises plans to address and manage them. Additionally, the process identifies and assesses exit strategies to manage cost and risk.

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For a continued explanation of the Frameworks to Drive Profitable Growth, please refer to "Driving Profitable Growth: Local Market Management is Key."

To discuss these issues, please contact our Client Services Coordinator at (312) 263-7888.