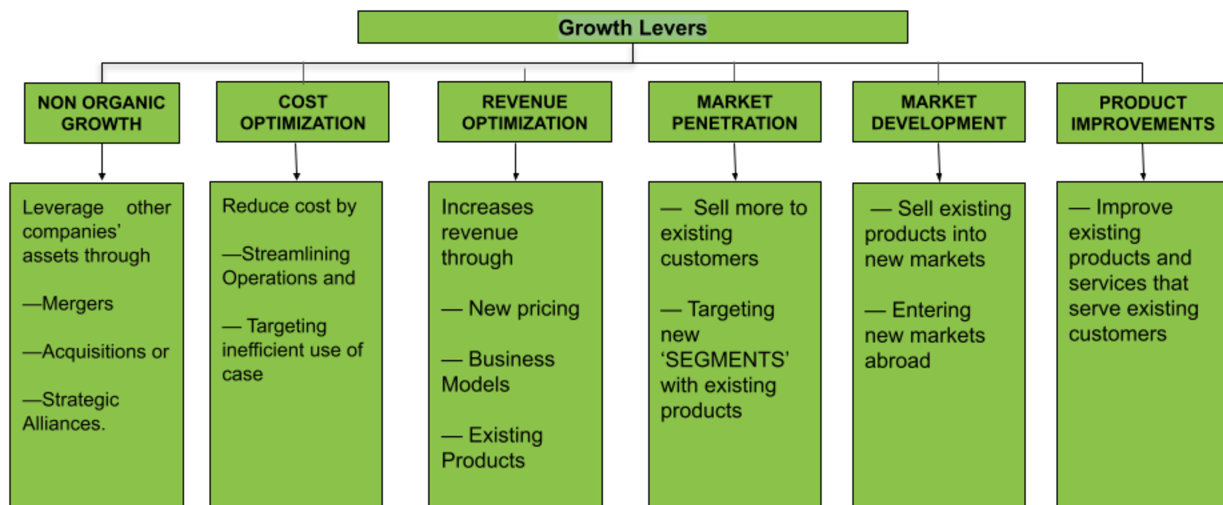
GROWTH FRAMEWORK

A company can expand either in its existing business (given there is scope) or by exploring new business. Growing current businesses may be related to market expansion and/or greater market share, so both scenarios must be explored. If the company is embarking into a new business, a feasibility assessment from an operational, financial, administrative, and so on perspective is required at the end. Growth can be targeted by focusing on any/all of the following growth levers:



STEPS INVOLVED IN SOLVING A GROWTH CASE

1. Reiterate the problem statement

Once the problem statement is told, reiterate the problem in a comprehensive manner as to know if the understanding of the problem by you is appropriate. If there would be any discrepancy, the interviewer would let you know then and there itself.

2. Ask preliminary questions

It is important to understand the problem better by asking some preliminary questions. Some important questions are –

- Understand the company – Geography/Products/Customers/Value chain
- The objective behind targeting growth
- Current growth rate of the company
- Current growth rate of the Industry
- Timeline to achieve this growth if not given in the statement
- Any budgetary constraints to be kept in mind while solving the case
- Keep checking operational feasibility at every stage – Are our current plants capable of meeting the increased demand?

Through these preliminary questions, it is important to figure out what the company is trying to grow. Are they trying to grow revenues, profits, number of customers, or something else?

Growing revenues versus growing profits can lead to very different strategies. Understanding what the company is trying to grow will help you determine what growth strategies will be most effective.

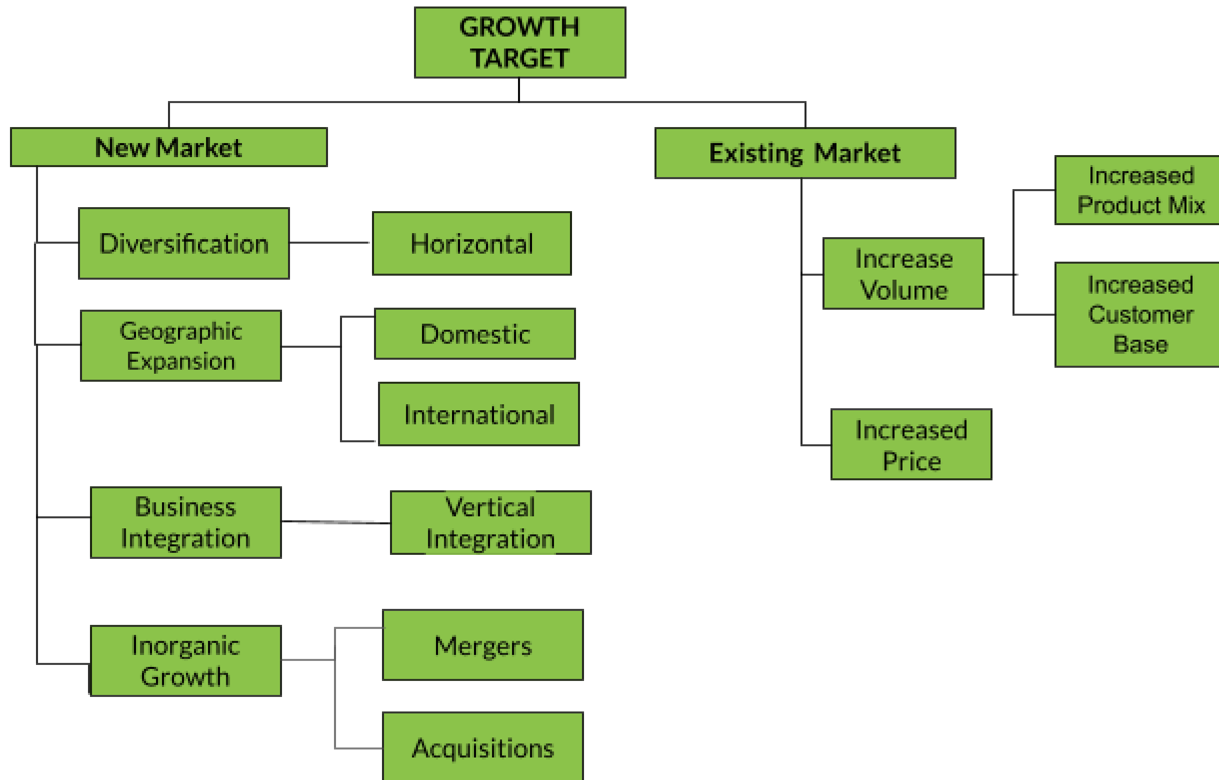
3. Quantify the specific target or goal

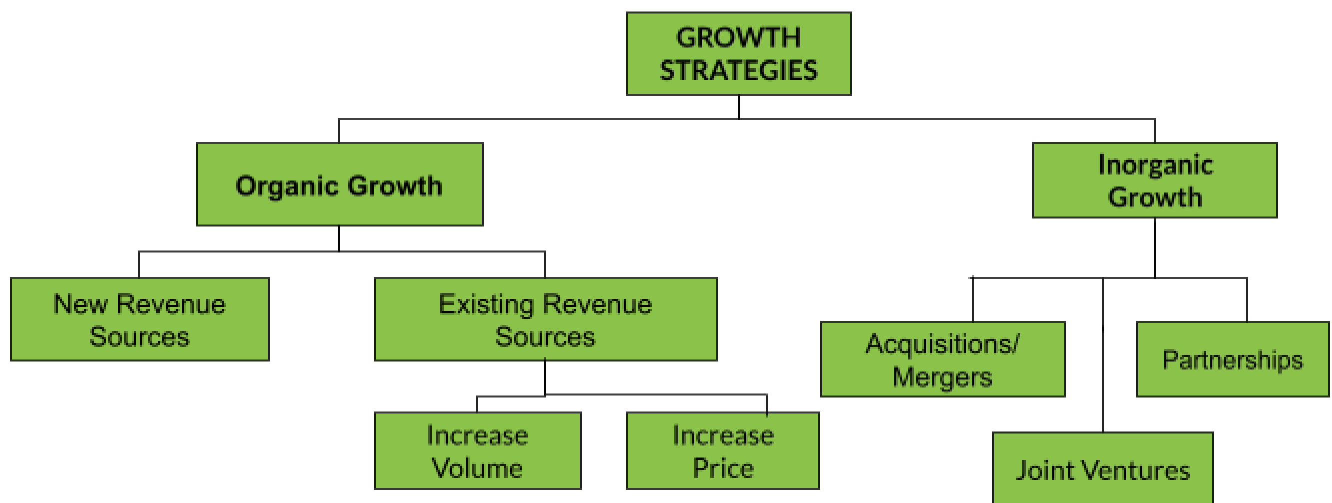
Next, you want to quantify the goal or target that the company is aiming for. For example, if the company wants to grow revenue, how much of a revenue increase are they hoping for? In what time period are they trying to accomplish this?

4. Create a growth framework and work through the case

Once you get an understanding of the target/objective and the budgetary constraints of the company, delve deeper into the case by creating a suitable framework to arrive at the required recommendation(s).

One of the many frameworks that maybe used for analyzing the growth prospects is the following:





GROWTH STRATEGIES

Organic Growth

Organic growth, which is generated by boosting output or engaging in internal operations, is the most prevalent type of growth pursued by businesses. In other words, the company is expanding based on its own strengths and efforts. Organic growth can also be divided into two categories:

1. Existing Revenue Sources-

a. Increase Volume
b. Increase Price

Growth through existing revenue sources is either driven by an increase in quantity of units sold or by an increase in average price per unit sold.

To increase the quantity of units sold, a company can:

- Improve their product
- Decrease prices
- Sell through new distribution channels
- Target new customer segments
- Expand into new geographies
- Invest more in marketing and sales

To increase the average price per unit sold, the company can:

- Increase prices for their products
- Focus on selling higher priced products

We may also look at the revenue per customer. For this we consider the following:

- Price charged
- Lifespan of the product/Usage
- Cross-selling
- Implementing promotional activities – Loyalty programs, bulk discounts etc.

Remember that changing prices will impact the quantity of units sold, so it is important to look at the net effect price changes have on revenue.

2. New Revenue Sources

a. Market Development

b. Diversification

   i. Core Offering

      1. Services
      2. Products
      3. After Sales

   ii. Non-Core Offering

      1. Services
      2. Products
      3. Accessories

c. Business Integration

Inorganic Growth

1. Acquisitions/ Takeovers

The first way that a company can grow inorganically is by acquiring another company. This gives the acquiring company all of the revenue that the acquisition target generates. In addition, there may be revenue synergies that the acquiring company can realize. Acquiring a company gives the acquiring company access to the acquisition target's distribution channels, customers, and products. The acquiring company may be able to increase revenues by cross-selling products, up-selling products, or bundling products together. The advantages of making an acquisition are that the company increases its revenues immediately. They also have full control over how they want to manage and operate the acquired company. The main disadvantages are that acquisitions are expensive and there could be difficulties fully integrating the acquired company.

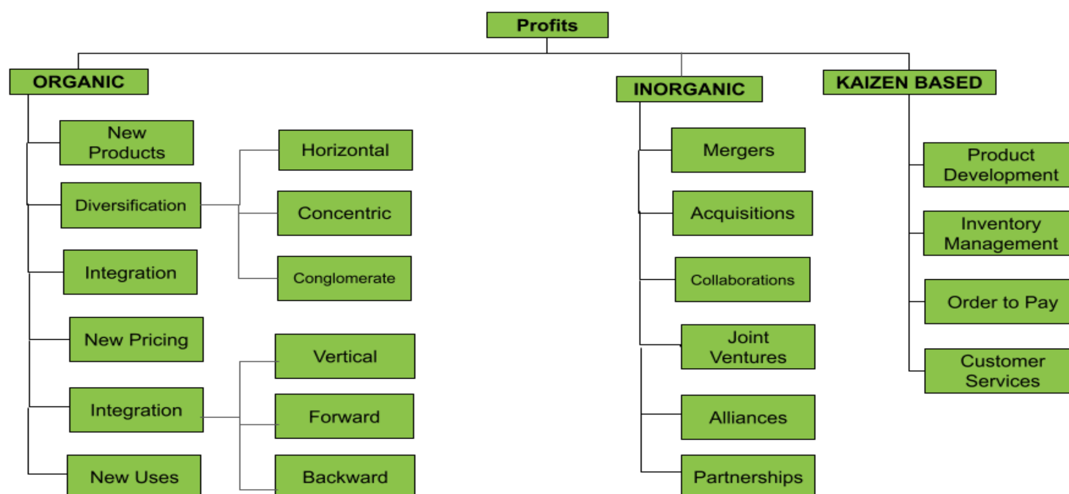
2. Joint venture

In a joint venture, two or more companies enter a business arrangement in which they pool together resources and share risk in accomplishing a particular task. Each company in the joint venture is responsible for profits, losses, and costs associated with the project. Joint ventures are beneficial to companies because they can share resources, expertise, and can decrease costs due to scale. Additionally, joint ventures are much cheaper than acquisitions. A disadvantage of a joint venture is that it will take time to generate revenue. Also, the company does not have full control over the operations of its partners.

3. Partnership

A partnership is an association between two or more companies that provides some kind of benefit to each partner. This is slightly different from a joint venture because in a partnership, companies do not necessarily have to combine resources or efforts. They just need to be associated with each other. One advantage of a partnership is that it is most often cheaper than a joint venture since resources don't necessarily need to be contributed. Also, all partners get the benefit from the brand names and customer access of their partners. Similar to joint ventures, one disadvantage of a partnership is that it takes time to generate revenue. Also, companies do not have full control over their partners' operations.

To opt for the best growth strategy, one must analyze the feasibility and profitability of the growth target and strategies. For this, the following framework can be used:



5. Prioritize and recommend the best opportunities for growth

Once you have investigated all of the potential opportunities for growth, it is time to prioritize and recommend the ones that are best for the company.

You'll likely need to develop some kind of rubric to evaluate each growth opportunity. You can score each growth opportunity on the basis of:

- Impact
- Ease of implementation
- Cost
- Timing

In step three, you quantified the specific target or goal that the company is trying to achieve. Make sure that your recommendation meets these goals.

Useful Key Aspects:

Analyze the market:

- Size and growth rates
- Segments (geographical, customer, product)
- Distributors / Suppliers
- Regulation
- Key market trends

Analyze the given company and competitors:

- Market shares, growth rates, profits
- Product / customer / geographical mix
- Products (Value proposition)
- Unit economics (Value proposition vs. price vs. costs)

- Key capabilities (Distribution, supply, assets, knowledge, etc)

Other Questions:

- Are there any barriers to entry into the new areas?
- Effect of substitutes and complements
- Products of scope with the existing product line we have?
- What drives customer satisfaction?
- What are the client’s available funds for growth (you can find it via balance sheet or cash flow statements)?

References:

1. https://www.preplounge.com/en/bootcamp.php/case-cracking-toolbox/identify-your-case-type/growth-strategy

2. https://hackingthecaseinterview.thinkific.com/pages/growth-strategy-case-interview

3. Casebooks:

a. IIM

b. FMS

c. Case in Point

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