



New markets or new products – an analysis of the strategies for success adopted by growing businesses



A survey of the owners, directors and employees of small and medium sized businesses conducted by PKF and The Sunday Times Enterprise Network.

Over recent years, many surveys have focused upon the extent to which growing businesses, especially small and medium sized businesses, rely upon a business plan to help drive their success. Time and time again report authors have rightly criticised smaller businesses for insufficient business planning - but this ignores the sometimes intuitive process by which some entrepreneurs and directors drive the strategy of a company.

This electronic survey conducted in October 2004 sought to tap into this intuitive process by using free-form answers, when possible, to let respondents define their business challenges and ambitions in their own words, and to assess the extent to which these companies are equipping themselves to deliver on these declared strategies.

“41% of founder-owners replying ran their companies without a strategic plan, compared with 20% of directors.”

With more than 76% of the 600 respondents confirming that their businesses had created strategic plans which featured clear and measurable objectives, we wanted to see what type of growth strategies each was adopting, using the classic Ansoff matrix analysis. The proportions of respondents falling into each segment of the matrix were surprising:

Ansoff's matrix of products and markets

Market development New markets Same products/services 60% of respondents	Diversification New markets New products/services 8% of respondents
Market penetration Same markets Same products/services 16% of respondents	Product/service development Same markets New products/services 8% of respondents

Market or product development?

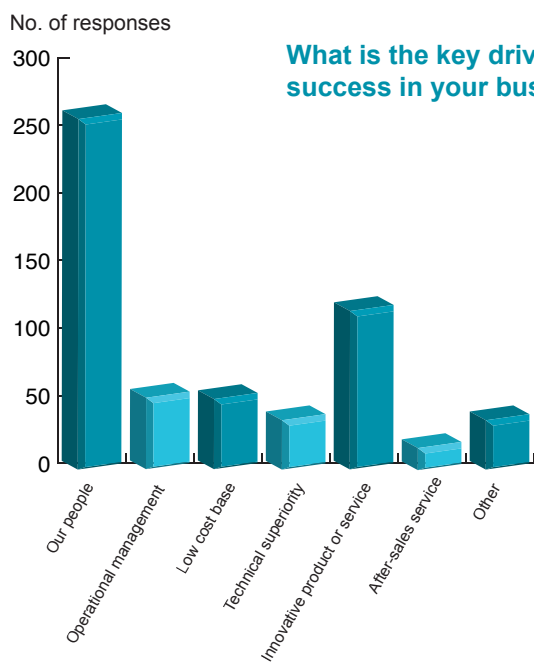
With only 16% of companies adopting the development of new products as a strategy for growing their business, it was clear that many lack the confidence or wherewithal to adopt a more risky development strategy – and since very few respondents felt they could rely upon effective after-sales service as a key driver of the business, it's likely that many would be unlikely to risk dilution by extending the range or products or services.

Nevertheless, the extent to which respondents said they were focusing on developing new markets for existing products or services (60%) seems marked. Some of the anecdotal responses from this group indicate that their definition of a 'new market' is actually based on the false

premise that new sales equate to ‘new markets’ rather than further penetration of existing markets. We will return to this theme later under ‘effective implementation’. Nevertheless, most companies would rather broaden their geographic markets than adopt innovative product strategies.

So what factors do the respondents say they rely upon to underpin their company growth?

The largest ‘driver’ for business success was ‘people’, quoted by 45% of respondents, with the next most crucial being ‘innovative product or service’ at 20.5%. Clearly many respondents place a lot of emphasis upon the staff and fellow management, especially in service businesses. Nearly two thirds (64%) of those aiming to sell existing products to new markets are relying upon their people to drive organic growth.



Right strategy or right implementation?

A good strategy can fail through poor implementation – and sometimes even ordinary strategies can beat more sophisticated strategies purely through effective implementation.

Without a clear plan, companies are forced on to the defensive, or to adopt strategies which are price driven – based on cost rather than value. Accordingly, a majority (44%) of those without a plan used a ‘low cost base’ to underpin a price driven position. Clearly, a strategy based on low cost and low price is a tenuous basis for continuous competitive advantage.

It is better to base the company’s plans for growth on a vision or goal for the company’s success, and then focus your own and your employees’ efforts on that vision – even if the market or the environment in which you operate occasionally forces one to adapt your approach – but without losing sight of the overall goal.

Unsurprisingly, 75% of the founder/owners responding felt that strategy was led by them, as it should be,

provided the goal and strategy is clearly articulated to everyone else in the company.

When asked about the key challenge faced by their business, many referred to the difficulties in promoting their business products and services.

Achieving effective marketing is often difficult on a limited budget, but does depend on how well, or closely, one has defined one’s marketplace. The second most frequently mentioned challenge among the anecdotal responses was the challenge of ‘marketing’ and ‘branding’. This is interesting, because some of those businesses most reliant upon people to deliver their services, also said they needed to improve their branding. For smaller companies, the brand – their differentiator – is their people, their values and behaviour. This will only emerge over time; it will not appear magically by advertising alone.

Organic growth or acquisitive strategies?

With respondents’ turnovers ranging from below £1m (54% of respondents) per annum, 23% with turnovers between £1m and £5m, and 13% turning over more than £20m, there was always going to be a variety of growth strategies.

“ I see the key to future success being to grow revenue and profits to a sufficient level where we can employ suitable management to conduct the day to day operation of the business.”

Respondent

As one would expect, the larger companies are more likely to consider an acquisitive growth strategy. It’s clear that as a company turnover size increases, each becomes more likely to consider or use acquisitive strategies. 69% of those turning over less than £1m say they will focus on organic growth, while only 15% say they will also consider acquisitive strategies. For those companies with turnovers between £10m and £19.99m, 42% have an overt strategic combination of acquisitive/ organic growth.

The key question is, does an acquisitive strategy become more likely as a company grows – or does a company increase its propensity to grow by adopting an acquisitive strategy earlier on? One CEO was even candid enough to admit that an acquisition was purely motivated by a desire to acquire a more able and experienced director team.

Barriers to effective implementation?

There seem to be several potential barriers to effective strategy implementation, even if the company has adopted the right strategy for growth.

For those companies reliant on people as a key driver, 15% have no formal strategy. This begs two questions; is the ‘unclear’ strategy sufficient to underpin growth, and

how does the staff know where priorities lie if they are either absent or poorly articulated?

Another barrier, and a key one, is the mindset of the owner/director themselves. 39% of respondents to this question felt (or were honest enough to say) that their biggest challenges were factors internal to the company, for example managing change, managing growth, training personnel or creating the right culture.

“ It’s sometimes difficult to think through longer term plans when the day to day operational stuff is so all-consuming.”

Respondent

The natural tendency to attribute problems to outside influences may explain some of this result. One man’s ‘it’s a very competitive market’ is another’s ‘we need to improve our sales process’. This constant belief or vision for success, sometimes in spite of real challenges, underlies many of the UK’s most successful smaller companies, and proves that how you communicate your vision and goals, and the tone you adopt, determines the strength of your success in implementing a strategy.

The right implementation

The majority of companies with 1-3 year strategic plans described their key driver as their people, clearly recognising that a vision, mission and clear goals all underpin successful performance when they are clearly communicated.

Those who anticipated or accurately read the market for their goods and services also emerge as winners – even if that strategy has emerged from major market change. To quote one respondent company: *‘Due to a global shift in the marketplace, we have transformed our business from a bespoke software development firm to a products based specialist.’* Clearly a company with a vision.

There’s nothing like adversity to focus the mind: *‘being the victim of fraud that forced us into receivership two years’ ago has given us greater clarity with our vision and welded the team more.’*

Interestingly, although the survey asked specific questions about strategies for organic or acquisitive growth, only two respondents out of nearly 600 even mentioned the benefits to be had from strategic alliances.

Many respondents clearly are looking to define and identify new, and distinct markets for their products or services, whether in a different geographic, sector or social grouping. But it was also clear that some respondents had insufficiently analysed or segmented the needs of the customers for their products and services. This ranged from respondents who had products in search of a market (‘my greatest challenge is creating customers’ need for my products’), through to those who wanted to ‘develop new markets’ for their goods or

services, but in reality may have been looking to extend the penetration of their existing markets, rather than finding a distinctive set of needs defining a ‘new market’.

Conclusions

This survey attracted company respondents with a rich mix of size and age profiles. Some highly profitable companies are growing rapidly, other longstanding companies have remained below £1m turnover and with reasonably good levels of profitability.

A high proportion of companies not only had developed strategic plans, many of these plans covered periods of up to three years. Ultimately, though, the strength of a plan lies in the effectiveness of its implementation. Here there is the suspicion that more effective communication from founders/owners and directors, coupled with a more acute focus on defining the needs of distinctive market segments, will help companies find the growth they are looking for. Most of these companies seek to minimise the risks of operation as a smaller business by aiming for organic growth in extended markets, rather than product or service extension. However, a sizeable minority do adopt more acquisitive growth strategies.

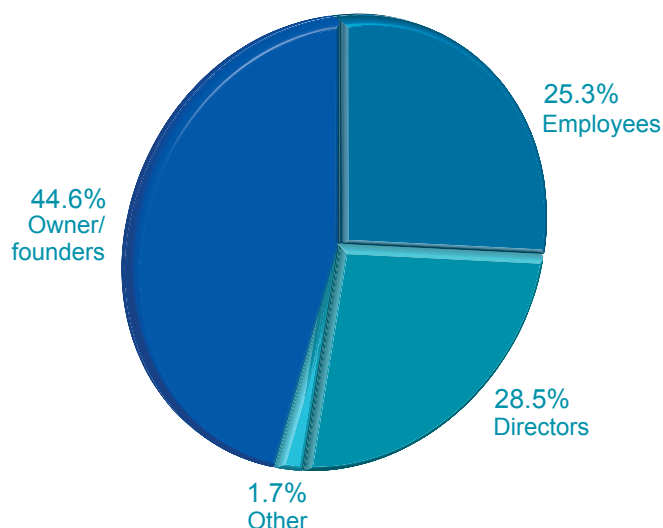
What we’ll look into in a subsequent survey is the extent to which the aims, energies and ambitions of a company’s founder direct its growth and ability to overcome challenges.

Other reading

Business development – A guide for growing companies, PKF 2004

Survey methodology

In October 2004 30,000 owners and directors of growing businesses were approached by email and invited to complete a brief electronic survey. 594 responses were received, representing a 2% response rate. The respondent profile was as follows:





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