Strategies for growth

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The six main strategic motivations and six major development methods listed below make 36 configurations for business growth

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Small is beautiful, people say, but not in the corporate world where growth and development are mottos of most strategic plans. A review of cases in recent decades might help us to understand the main motivations, methods and risks of growth strategies.

Why grow your business?

- To keep up with a growing market. Who was the leader of the Japanese motorbike market in the 1950s? Honda? Yamaha? No, Tohatsu. The now long-forgotten manufacturer failed because it simply maintained its production, while Honda, once a small workshop, invested to extend its range of products and facilities. Extension of current products and markets, a comprehensive distribution network and incremental innovations are all priorities.

- To reach a ‘critical size’ in a maturing and globalising market when economies of scale become key in the price war. This is why we see mergers and acquisitions, such as in the global water market with Danone taking over Evian and Volvic, Wahaha in China and Aqua in Indonesia.

- To consolidate. We find consolidation of activities through related diversifications. This happens when entering a new major geographic market, such as China in the case of European, US and Japanese carmakers, or a newly related sector, such as smart-phones in the case of PC makers. We often see backward or downward integration of suppliers and distributors. Related diversifications often share links of the value-added chain, such as purchase, manufacturing, technology, logistics and distribution.

- To balance the portfolio of activities, or keep your eggs in separate baskets through unrelated, or not directly related, diversifications. France’s Bouygues, a leader in the construction sector, diversified into television in the 1980s and into the mobile and internet sector in the 1990s, helping to free itself from the construction market cycles.

- To seize opportunities. Bernard Arnault, chief executive officer of French luxury group LVMH, developed the conglomerate through the systematic acquisition of prestigious brands whenever they were available, preventing other competitors from buying them in a market where brands are scarce and highly significant.
To change the rules of the game through a radical innovation. For example, the digital revolution in cameras, which marginalised Kodak, and the hybrid electric technology that put Toyota 10 years ahead of its competitors were both game changers.

What development methods are there?

- **Internal growth.** A company develops within itself when a project is close to its capacity and not too urgent. Internal growth is costly and needs organisational changes, such as the creation of a team-project structure. Cash management might be a risk for small and medium enterprises choosing this path.

- **Alliance with a competitor.** In order to cover a wider range of destinations and more markets, Air France and the Dutch airline KLM joined to create Skyteam. France’s Renault and Japan’s Nissan combined to cover all the segments of the automobile market worldwide. The main risks include political issues, industrial spying and dependence of the smaller ally. One advantage is that alliances are more easily reversible than mergers.

- **Acquisition.** When development is urgent, acquisition is a good option. The main risk lies in the control or alteration of the competences and image of the acquired company. The acquisition of US-based IBM’s PC division by China’s Lenovo illustrates such challenges. Progressive transfer of the branding from IBM to Lenovo for the Thinkpad, a similar name for Lenovo’s other products such as the Ideapad, and the attempt to keep talented IBM engineers all helped mitigate this.

- **Merger.** This works when comparable companies, such as global pharmaceutical firms, want to quickly reach a critical mass through economies of scale and complementing products or services.

- **Partnership with a firm from another sector.** For example, Air France, the US car rental company Hertz and French hotel group Accor partnered to offer a full range of services to air travellers.

- **Networking development through outsourcing.** When capital requirement is too heavy, the project is urgent and the activity is subject to structural variations, outsourcing may be used. Italy’s Benetton Group fashion company developed through a comprehensive network of subcontractors: for design, raw materials, manufacturing, distribution, fabric dyeing, logistics, marketing and communication. The challenge is to ensure the consistency of the product and of the brand image.

**Theory and reality**

Growth and development are just managerial and academic jargon and rhetoric gimmicks if the leadership and the spirit of the company are inadequate. A manager is not a ‘developer’, and managerial tools might be lethal to innovation (for example, allocating indirect costs to a new activity might make it appear falsely unprofitable). A visionary leader, with communicative enthusiasm and generosity, along with a participative, bottom-up decision process for the identification of opportunities and implementation traps is the ideal combination. At worst, a technocratic leader along with a bureaucratic, top-down decision process will eventually discourage innovation. Beyond theories and models, a good strategy requires critical thinking and analysis of each individual situation.
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