

TOP-LINE GROWTH: THE STRATEGIC IMPLICATIONS

Richard B. Jones
Vice President

The ChemQuest Group, Inc.
Cincinnati, Ohio

Adhesives and Sealants Industry (ASI) ó
õStrategic Solutionsö ó Pg. 12-14

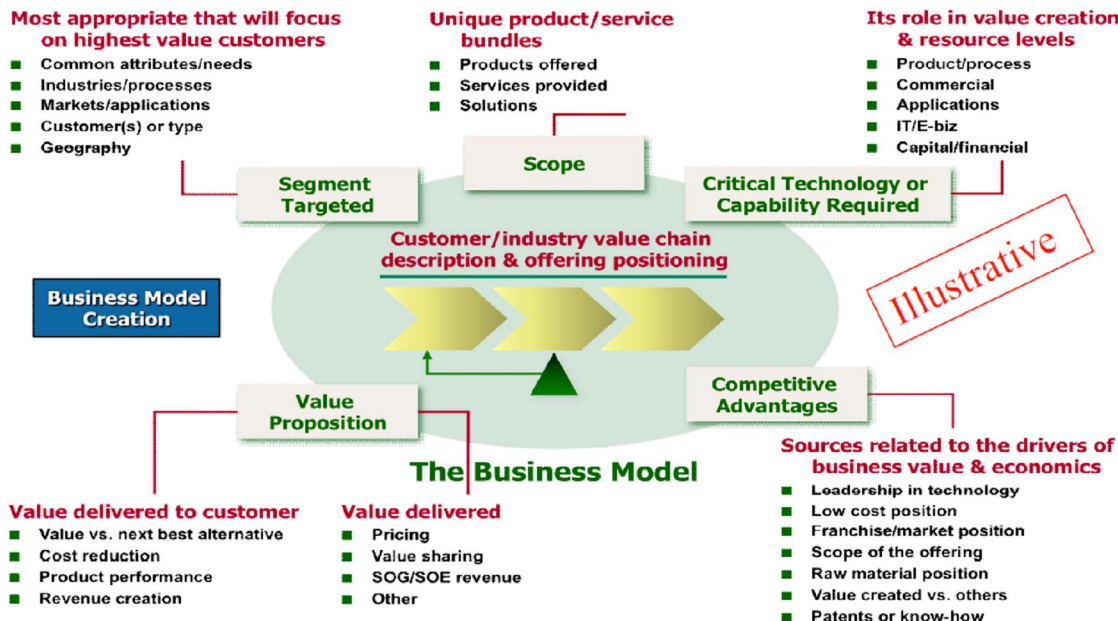
September, 2011

In these difficult economic times, just about every adhesive and coating company has struggled to some degree. Over the past 18-24 months, a lot of effort has certainly gone into reducing costs and right-sizing to reflect the significant decrease in demand for these formulated products, with recent positive profit reports indicating that such efforts have been successful. Yet, at the same time, companies have to acknowledge that they cannot save their way to prosperity. There reaches a point where the top-line must grow. The big question, though, is how do companies do this in what still is a challenging economy where many incumbent markets remain soft. This article will explore the various elements in identifying and executing a strategy to successfully grow the top-line.

SELF-EVALUATION

Before any effort should be put into developing a growth strategy, a company needs to take full stock of who they are, what they do (or not do), what their capabilities are (or aren't), where they do business (or don't), etc. This full self-evaluation is crucial. For example, is your company considered to be a technology leader or follower? Are there geographic constraints? Are there capacity limitations or permitting issues? Is technical service a key element of the value proposition? Is there a disciplined approach to product pricing? As Figure 1 illustrates, there are many aspects of a company's business model that need to be fully understood and assessed before a strategic growth plan can be developed that has any chance of success.

Figure 1
A robust business model is the foundation for sound understanding of strategy



As with all such endeavors, a good strategic plan *must* also have a defined end-goal. While the means to that end-goal need to be flexible to adapt to a dynamic marketplace, there still needs to be a discernible understanding of what the overall objectives are, as that understanding will drive the underlying strategic and tactical plans. For example, is the goal to be top-line sales growth solely for the sake of revenue growth, or is it to gain market share in a specific market segment? Is it to enhance profitability through a favorable change in product mix, or to penetrate new geographic markets? Likely, it is some combination of these objectives. As a result, the final strategic and associated tactical plans need to factor in these corporate objectives in order to succeed.

ORGANIC GROWTH

Typically, strategies involve combinations of organic and inorganic elements. Let's first look at organic means of growth. These, of course, often involve ramping up sales efforts to sell current products (or slight variations thereof) to customers in *new* markets. But has enough effort been put forth to fully understand the personality of this *new* market? Blindly jumping into a *new* pool without sufficient study risks finding that the pool is either too shallow to be worth the effort, or is too deep and *perilous*. Yet, studying the market is more than just determining how big the market is, how much it is growing and/or who else competes there. A true understanding must be reached. For example, how competitive is that market and how does that impact product pricing (and thus profitability)? Is it a dynamic market such that the product life cycle is relatively short requiring continued product development in order to keep up? Do customers require/expect a level of technical service that exceeds current capabilities? Is a distribution channel required in order to be effective? Can this new market be handled with the current sales team or is it different enough as to require a separate and distinctly different team?

Another organic route to top-line growth is to develop new products for incumbent markets and/or for new ones. This approach first requires that there be a thorough understanding of the unmet needs of the ultimate end-users. Without that, there cannot be a full determination of the underlying value proposition. Without that, tremendous amounts of technical effort could be wasted developing a product that no one wants, needs and/or for which no one is willing to pay the price. A somewhat worst-case scenario is the successful development of a new product that the market desires, but is then priced well below its true value-in-use. Certainly the customer is happy, but a significant profit opportunity may be lost. The opposite



happens if a high-level of service is offered in a market that does not value it. The customers will appreciate it but will not be willing to pay for it. Here, profitability takes a hit until suitable adjustments are made.

All of this points to the requirement that a company fully identifies and understands the personality of the new market(s) that it is pursuing. It can certainly lessen the chances of huge, costly missteps. If done properly, a well thought-out strategic plan can instead greatly shorten the time to successful market entry by laying out a clear path forward, by providing solid rationale for actions to be taken, and by pre-addressing potential issues so that flexibility can be built into the plan to react to problems that will likely arise.

INORGANIC GROWTH

Let's now look at the inorganic elements of a strategic plan. Here, the first thing that too often gets asked is, "Who can we buy?" While acquiring another company is definitely a big part of an inorganic strategy, it often becomes the "end-game" versus a means toward achieving the strategic objectives. Frequently, companies just dive into acquisition searches without having done the gap analysis between their current capabilities, what the designated market requires and what their goals and objectives are. As a result, there are many examples where a company has acquired an entity that has a notable position in the target market but is unfortunately not able to capitalize on that because of their inability to successfully capture the "magic". Is the acquiree a leader, whereas the acquirer is a follower? Something is inevitably lost in this clash of cultures. Does the acquiree provide a level of individualized service that the acquirer is not structured to continue offering? Will the acquiree be left to run separately or be fully integrated into the acquirer's organization - with the latter causing a potential loss of what makes the acquiree special?

By having done a full assessment of a company's capabilities and then outlining the direction it needs to head to achieve new top-line growth, acquisition targets can be identified that not only fill the identified gaps but are also synergistic with the incumbent corporate culture. This greatly raises the chance that the acquisition will have the intended positive impact today, as well as tomorrow.

The tendency, though, is to immediately rush into acquisitions when constructing the inorganic portion of a strategy. If buying another company is not feasible or financially doable, an alternative might be a joint venture where investments are often less onerous and combine the best elements of two parties into one effective market entity. Other alternative approaches are technology licensing and private-labeling.

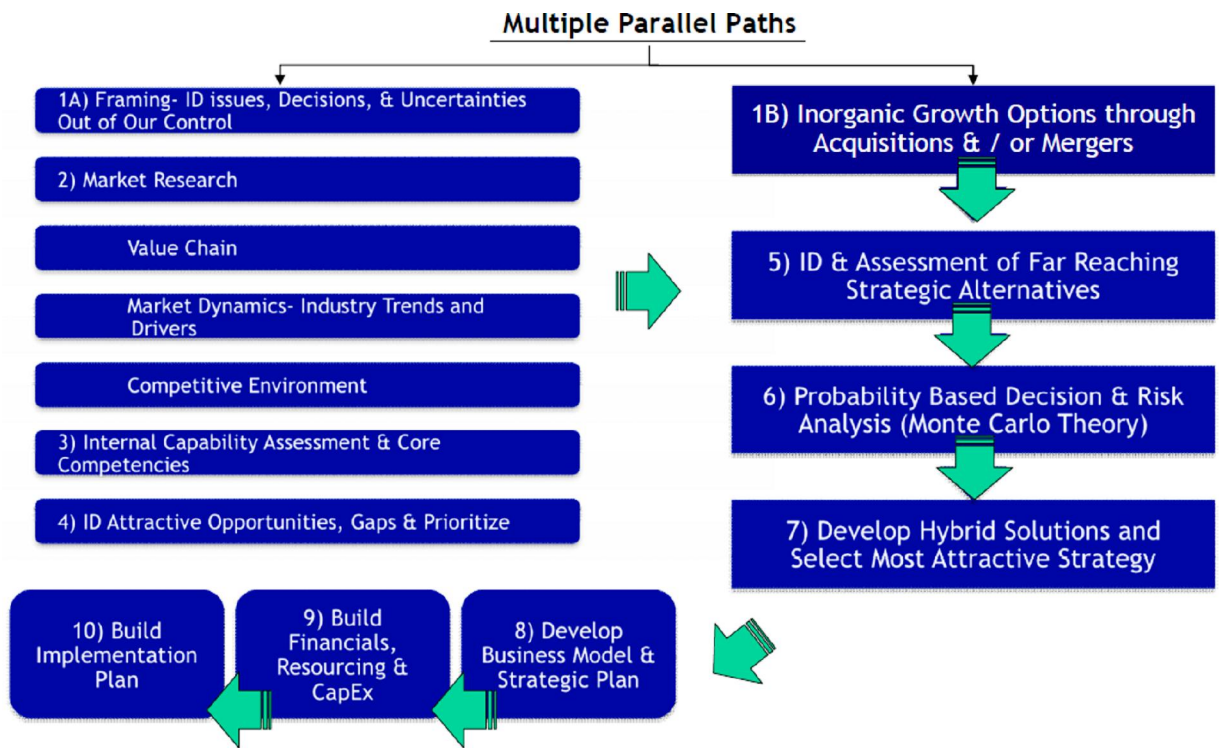


These can be very fruitful options, as they can somewhat quickly fill a product gap (if that is what has been deemed to be lacking). Licensing and private-labeling, though, can make for strange bed-fellows, but it is far more prevalent than many people realize. Because such agreements can be made specific as to what geographies or markets do or don't apply, they can be structured to be agreeable, and yet beneficial, to all parties.

FINALIZING THE STRATEGY

So, where are we? As Figure 2 shows, you've done a complete internal assessment; thorough research of the target market(s) deemed to be most attractive for top-line growth and analyzed the gap between what you have and what you need to be successful.

Figure 2



The final executable strategy, though, is rarely a "one-size fits all" proposition. It, instead, typically is a hybrid of both organic and inorganic elements. One market may involve having Product Development take a technology license from another party and then generate new offerings that the existing sales force can sell to targeted customers. On the other hand, the circumstances may dictate that a whole new approach be undertaken requiring that a company acquire the requisite technical capabilities, sales/service infrastructure, geographic placement, etc.

The bottom-line, though, is that **ONLY** after a complete understanding of who a company is, what they are, and where they want to go can they develop a clear strategic plan of how to get to the desired top-line growth.



About the Author



Richard B. Jones

Vice President

The ChemQuest Group, Inc.,

an international strategic management consulting firm specializing in the Adhesives, Sealants and Coatings industries, with headquarters in Cincinnati, OH and offices located around the world.

Rick Jones joined The ChemQuest Group, Inc. as Vice President in 2006. He spent the previous twenty-nine years in the coatings and adhesives industry working for PPG Industries, Valspar Corporation, Lord Corporation and Sovereign Specialty Chemicals/Henkel Corporation. His entire career has focused on business management, marketing and technical sales within automotive, aerospace, industrial and wood markets. Rick has extensive knowledge and experience in creating successful business strategies, and successfully launching profitable sales and marketing programs for technical products into domestic and international OEM markets. Rick is a member of the Adhesives and Sealants Council, National Paint and Coatings Association, Society of Protective Coatings and RadTech. He holds a B.S. degree from Allegheny College (Meadville, PA).

The ChemQuest Group, Inc. is a strategic management consulting firm that has been a respected source of information pertaining to the coatings, adhesives and sealants markets since 1980. It has continually monitored the changes in market size, technology developments, raw material trends and the emergence of growth opportunities in these complex, fragmented industries. The firm is top-line focused, offering such services as strategy development, market analysis and mergers & acquisitions. ChemQuest is headquartered in Cincinnati, OH and has offices in Raleigh, NC; Columbus, OH; Boston, MA; London, England; Düsseldorf and Hamburg, Germany; Guangzhou, China; Buenos Aires, Argentina; and Cairo, Egypt.

Questions or request for additional copies of this paper may be directed to the author at:

**The ChemQuest Group, Inc.
8150 Corporate Park Drive
Suite 250
Cincinnati, OH 45242**

**(513) 469-7555
(513) 469-7779 – FAX**

www.chemquest.com



Copyright © 2011 The ChemQuest Group, Inc.
All Rights Reserved