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Secrets of Successful Growth

“ There is more than one way to achieve business growth and it takes careful planning to get it right. Deciding to focus or diversify is a recurrent challenge for ambitious entrepreneurs. ”

Deciding whether to focus or diversify to achieve business growth is a conundrum for growth-oriented entrepreneurial businesses. At what point will the market segment that has sustained the development of the business no longer be sufficient to support its future growth? Diversify too soon, and the business risks losing focus on its existing customers. Diversify too late, and the opportunities may be taken by others.

In the 21 years that the Business Growth and Development Programme (BGP) has been running at Cranfield, we have monitored closely the market development strategies of ambitious owner-managers. The overwhelming evidence is that niche strategies work. Our most successful entrepreneurs find a market segment in which they can excel and build their presence in that sector. They then sell more to their existing customers and find others who are like them.

In 2000, Hotel Chocolat co-founder Angus Thirlwell took part in the BGP when the business was a mail order specialist with a turnover of £6 million. Today, the business is ten times the size. In addition to catalogue and internet sales, Hotel Chocolat has 42 UK stores, two in the US and is opening franchises in the Middle East this year. However, the core of the business remains chocolate, in a glorious medley of shapes, sizes and flavours.

The arguments in support of niche strategies are well known. They create distinctive points of difference which build customer loyalty and support the margins needed for re-investment. It takes time to understand fully the value that customers perceive in you and to build the competences needed to deliver this. Hotel Chocolat has three core ingredients in its DNA: an understanding of brand building; a passion for innovation; and a direct relationship with consumers. “Departing from this formula is a denial of what the business is all about and will always come back to bite you,” says Thirlwell.

Evolution v Revolution

Diversification was on the agenda at this year’s Cranfield VentureDay, the School’s annual entrepreneurial conference which brings together the UK’s leading entrepreneurs, investors and advisors.

The message from our panel of business founders was unequivocal: listen closely and carefully to your customers before you leap. Hotel Chocolat has embedded this in its business. Members of their chocolate tasting club review and report on new products, which helps the business to plan for the future. In most cases opportunities identified by customers are what we describe as evolutionary. They are not radical departures from the core of the business, but incremental in nature. For example, new products or services for existing customers, or new customers for an existing offer.

Rod Leefe, former Chairman of the recruitment specialist Witan Jardine took part in the BGP in 2000, when the company was narrowly focused on filling permanent positions in the accountancy sector. In 2008, the business was sold in a multi-million pound deal. In the intervening eight years, Witan Jardine was transformed. The company evolved to include interim recruitment and expanded its sector coverage to marketing, operations and risk management. At the same time its client base steadily expanded and its revenue grew fourfold. However, none of this happened overnight. Every year the business pushed a little further into related areas of business - innovating, absorbing and consolidating before moving on.

The opposing strategy is the revolutionary one, where the entrepreneur has to re-invent the business in response to market turbulence. A business that took part in BGP in 2001 faced this challenge. Tunewell Transformers went from being a neon lighting company in a commoditised market to become Juice Technology, a research and development business, creating innovative solutions for light and power systems. In a high-cost economy like the UK, manufacturers have to compete increasingly on high added value, and that often requires a reinvention of the business.

Whether the next stage in the life of a business is evolutionary or revolutionary, identifying and dominating profitable niches remains central for ambitious owner-managed businesses. Not only does this provide in-depth knowledge of customers, it will unearth a stream of new opportunities for future growth. Growth is seldom easy and managing it is a constant challenge. Ambitious entrepreneurs who have clarity over their future direction will continue to shorten the odds in their favour. ME

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