

# Four Proven Steps for Generating Profitable Growth in a Good or Bad Economy

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## Summary

Though counterintuitive, in both good and bad economic times, **market focus** has proven a more effective and lasting strategic alternative for stimulating profitable growth than widening market scope. The four essential steps to achieve profitable growth through focus are: 1) a sound process and proven set of criteria for selecting a target market, 2) uncompromising team commitment to that focus, 3) decisiveness in reallocating and refocusing resources, and 4) a high degree of discipline in execution.

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## **Slow Growth? Don't Overreact. Stop, Think and Re-Focus**

In case you somehow missed it, large segments of the American economy are struggling. Most economists are anticipating a protracted period before positive economic momentum returns. However, passively waiting for the return of favorable winds is not a prudent strategy. Why? Because your competitors, those that *focus and act decisively* now, through the economic downturn, will have established an insurmountable lead when the rebound comes 'round.

Now is the time for carefully considered, focused growth initiatives; initiatives that can be executed by your current employees and financed with the assets already in your business.

## **Growth-Revitalizing Strategies Require Focus**

Research has shown that a focus strategy can return greater than five times the ROI and up to 15 times higher Total Return to Shareholders (TRS) than broad-based strategies.

In 2004, authors Joyce, Nohria and

Roberson published the results of their "Evergreen Project" in "What Really Works: The 4+2 Formula for Sustained Business Success". They collected and analyzed 10 years of data on dozens of companies, looking at the TRS impact of 200 common management practices. Their resultant "4+2 Formula" includes four "must haves"; four business process disciplines that are universally present in the high TRS firms they studied.

The primary "must have" is a strategy that is clear and focused. The other three "must haves" all revolve around execution:

- Make your organization fast and flat
- Execute flawlessly
- Build a performance based culture

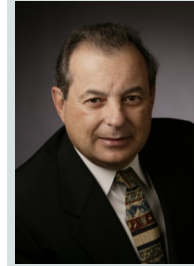
Why does strategic focus get top billing among the four? Because, a business that does not have a sound, focused strategy, has nothing meaningful to be disciplined, fast and flawless with. Poorly conceived strategies combined with great execution only allow a business to become very efficient at failing.

## **More Data Points to Good Results from Strategic Focus**

The PIMS (Profit Impact of Market Strategy) database was established in the 1960's by GE to discover fundamental relationships between market strategy and profitability. In the 1970's it was further refined by Harvard Business School and is now managed by the non-profit Strategic Planning Institute. It contains detailed historical data from more than 3,000 strategic experiences - 16,000+ years of data.

The data reveal that the single most important factor affecting a business unit's performance (as measured by market share and profitability) is the

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relative perceived quality (RPQ) of its products and services compared to its competitors. More quantitatively, PIMS data shows that 5 times higher ROI can be achieved by products with both higher relative perceived quality and high degree of differentiation.

Focus is key, because it is much easier to achieve an RPQ leadership (RPQL) position through strong differentiation and a quality customer experience in narrow focused market segments, than equally across a wider range of markets. (It should be noted here, that "Quality" in this context, refers to the customer perception of the total experience with the product and the company, not just the product's reliability.)

The act of strategic focus fundamentally accelerates the organization's ability to achieve RPQL by concentrating resources on the customer experience in whatever market is determined to be the most lucrative.

## **Getting a Start on Focus Strategy**

The first challenge in a strategic focus effort is convincing the team of just how crucial *focus* is. Here are some purely practical reasons for focus:

- A more precise, market-specific value proposition is easier to develop and communicate to customers
- Customer success can be leveraged with greater credibility to others in

the targeted market segment

- The customer-to-customer intra-market communication network is more dependable and effective than cross-market word-of-mouth.
- An in-segment communication channel reduces the need / cost of expanded advertising and promotion
- The higher the market share in a specific market, the more defensible the brand position
- A focus strategy effort improves customer understanding, empathy and relationships

Research from Dr. Everett M. Rogers' book (The Diffusion of Innovation, 1995) revealed that peer-to-peer word of mouth is 13 times more effective than mass communications. Recent Social Media successes demonstrate the clout of an internet-enabled, intra-market network communication channel in gaining traction for an eclectic range of ideas and products—from political, to musical to high tech.

### A Focus Strategy Can Extract Success from Failure

The Segway® was initially envisioned for a bustling urban world of battery-powered, two-wheeled commuters. While it has made some progress toward that vision in areas like Mexico City, with its dense population and high level of smog, a different strategy was required in the U.S. Success has been achieved, albeit much less than originally envisioned, through a series of more tightly focused market initiatives (security, warehousing, public safety and tourism), where the Segway's unique capabilities deliver higher perceived value.



In another example, protests from the sales and marketing team notwithstanding, a startup client struggling with slow market acceptance of their new software narrowed their market focus and within a few years, garnered

more than a thousand new clients, quintupling their annual revenue.

### Four Steps to Success with Focus

**Step 1.** Select a target market using sound criteria. Some to consider:

- Inherent segment momentum
- Compelling, segment-specific needs that your product/service satisfies
- The economic or emotional value to the customer of meeting those needs
- The degree to which there exists a vibrant and active, customer-to-customer intra-market community
- The degree of competitive turmoil
- Ease of accessibility of customers
- Availability of a quality leadership (RPQL) position in the segment
- The absolute number of under-satisfied, potential customers
- Relevance of your brand image and differentiation to the segment
- Profitability of a typical transaction

**Step 2.** Build an Uncompromising Commitment to Focus

Our experience shows that it is difficult to convince a marketing and sales team that *focus* is in everyone's best interest—particularly if they have no history of success with it. Thoughts of narrower budgets or, missing some big deals, conjure up visions of commission checks slipping from their fingers into great, bottomless chasms.

A client, about to shut down a product line after two minimally successful years of unfocused market push, asked for our help. A strategic analysis using the criteria above, revealed a profitable and much better matched target market. Upon refocusing the sales effort, new customers began to roll in and the installed base increased dramatically.

In the first year the largest single order hit \$1 million (compared to the previous largest order of \$20K). In the face of this success the product manager persisted in believing that big opportunities were to be found in the wider market. In three years none were.

To counter this natural reluctance to

focus, our most successful client developed and signed a team covenant. A covenant agreement might state, "*We will remain focused, holding each other accountable to proactively engage with only those customers in our selected target segment, until success (or failure) is determined. Should an opportunity outside of our primary focus present itself, we will not reject it out of hand, but not deter from our main objective.*"

**Step 3.** Reallocate Resources

This is typically the biggest barrier and the toughest management action to take. It requires executive decisiveness and some hard choices. Strategic change cannot succeed if the executive in-charge lacks the will and courage of conviction to reallocate resources (people, money, time, energy) to the new focus. This may mean halting unprofitable business lines, closing unprofitable office locations, letting go unprofitable customers and/or unplugging support for long-shots, sacred cows and pet-projects. In our experience, focus initiatives typically do not require additional funds to start, but rather the reallocation of current assets.

**Step 4.** Measure and Validate

Finally, a rapid-feedback loop must be put in place to provide constant visibility of the effectiveness of the focus initiative. If it is not gaining traction, go back to Step 1 quickly. Affect an analysis re-do. The software startup, mentioned earlier, actually had a false start out of the gate. However, with a rapid feedback mechanism in place, they were able to re-strategize and re-launch in 90 days and hit pay dirt.

### Conclusion:

In this struggling economy, businesses can choose to wait, broaden their market horizon, or re-focus. In any economy, the most strategically sound, cost effective and proven alternative for generating profitable growth is focus.

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