

Squeezing Growth from a Rock-Dry Economy: Four Proven Steps

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Summary

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

Growth? Don't Depend on a Lift from the Economy Anytime Soon

The economy is really struggling — effectively hog-tied on both demand and supply sides.

More than two-thirds of the demand side is driven by consumer spending. That economic engine is stalled - tapped out from a combination of maxed-out credit cards, increased unemployment, reduced work hours, increasing under-employment, stagnating wages and spent-out home equity. (See the data below from Freddie Mac)

During the housing boom, consumer spending was fueled by "cash out" mortgage refinancings worth tens of billions of dollars. Falling home prices cut off that source of cash just as soaring unemployment wiped out millions of paychecks.



Making things worse, family net worth has been staggered by a one-two punch of a deflated, tenuous stock market and collapsing real estate values.

As if we needed another dark cloud on the horizon, **RealtyTrac** has forecast foreclosures to exceed 3 million properties in 2010, compared to 2.8 million in 2009.

The consumer gas tank is empty.

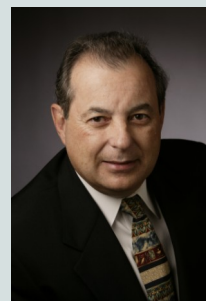
On the supply-side, small B2B businesses are also experiencing tough times. In many, revenues are down 25% or more. Most companies have already downsized to bring expenses in line with reduced revenues in a urgent drive to achieve break-even cash flow.

Small B2B companies face additional difficulty from the new rigor required to re-negotiate lines of credit and obtain loans to finance new business initiatives. The culprit is a shroud of more stringent FDIC guidelines for banks' loan portfolios, which, in turn, has prompted raising the hurdles for loan qualification. The double irony is banks currently have adequate amounts of money to lend and were wooing these businesses just a short time ago.

This Great 21st Century Recession is even reaching into state and local governments, traditionally the last bastion of stable employment in past recessions. As this is written, California is attempting an across-the-board minimum wage action while forty-five other states, facing significant declines in tax revenues and the resultant budget pressures, are also enacting spending reductions.

A second federal stimulus package is iffy, unless sweeping reallocations in Federal spending can be shown as deficit offsets. The best that can be hoped is, that against the strong political sentiment to rein in deficit spending, Congress will again extend unemployment

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benefits. But that alone will be insufficient to turn the economy around. This complex set of circumstances cannot be swept away overnight—no matter which party controls Congress.

Managers, owners and economists are becoming resigned, calling this the "New Normal" economy - an environment in which the benchmark for success has changed from double-digit growth to break-even on flat revenue. Anticipating a protracted and painful interim until positive economic momentum returns, passively waiting is not a prudent strategy. Why? Because those of your competitors that *focus and act decisively* now, through the downturn, will have built an insurmountable lead when it ends.

This is the time for carefully considered, focused, yet aggressive growth initiatives - initiatives that can be executed by the people, and financed with the assets already in your business.

Growth-Generating Focus Strategies Require Tough Decisions to Reallocate Assets

There are four primary drivers of business growth: a) inherent market momentum, b) new customers, c) new products and d) market share gains. Research confirms that a focus strategy

provides a higher probability of success and returns 5 to 15 times higher ROI than broad-based strategies. The act of focus, fundamentally maximizes any of the four primary growth drivers.

The first challenge a focus strategy formulation effort faces is convincing the team that focus is crucial. Here are some of the reasons it is:

- A more precise, market-specific value proposition is easier to develop and communicate to customers
- Customer successes 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 for expanded advertising and promotional expense.
- The higher market share in a specific market, the more defensible and better the competitive brand position.
- A focus effort builds improved customer intimacy and understanding of the customer challenges

Research from Everett Rogers' *Diffusion of Innovations* (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 internet-enabled, intra-market network communication.

Focus Strategies Have Extracted Success from Failure

The Segway® was initially envisioned for a bustling urban world of battery-powered two-wheeled commuters. While it has achieved some small success toward that vision in densely populated



and smog-inflicted settings like Mexico City, a different strategy was required in the U.S. What success it eventually found was the result of more tightly focused market segment initiatives where its unique capabilities delivered higher perceived value; security, warehousing, public safety and tourism.

In another example, protests from their sales and marketing team notwithstanding, a client of ours struggling with slow market acceptance of its new software offering, narrowed its focus, and within a few years garnered more than a thousand new clients, quintupling its annual revenue.

Launching a Successful Market Focus Strategy in Four Steps

1. Select a target market using sound criteria. Here are factors to consider.
 - Market segment momentum
 - Compelling, segment-specific needs that your product satisfies
 - The economic 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
 - The availability of a Quality leadership 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

When focusing, keep in mind that Strategic Planning Institute data has revealed that the single most important factor affecting a business unit's performance is the relative perceived Quality of its offerings compared to competitors.

2. Build an Uncompromising Commitment to Focus

Some successful clients have developed and posted signed covenants. A covenant agreement might state, *"Our business development team will remain focused, holding each other accountable to engaging only customers in our selected target segment, until success (or failure) is determined. Should an opportunity present itself from outside of the primary focus, it will not be rejected out of hand, but not distract us from our main objective."*

3. Reallocate Resources

This is the typically the toughest step and biggest barrier. It requires executive decisiveness and making hard choices. Strategic change cannot succeed if the executive-in-charge lacks the will and decisiveness to reallocate resources (people, money, time, energy). 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. Focus strategy initiatives typically do not require additional funds, but rather the reallocation of current assets.

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 market traction, go back to Step 1 quickly. Affect a re-do. The software startup, mentioned earlier, actually had a false-start out of the gate. However, with their rapid feedback mechanism in place, they were able to re-strategize in less than 90 days and hit pay dirt.

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

To discuss how to stimulate growth in the "New Normal" economy contact Jerry Vieira at 503-318-2696 or jgv@qmpassociates.com. Visit the QMP Group website at www.TheQMPGroup.com. To find additional helpful articles go to [/QMP_Business_Insights_Articles.htm](http://QMP_Business_Insights_Articles.htm).