Planning for Growth

A guide to help you manage the growth phase of your business

When you started your business, or when it was established, a business plan of some kind was likely prepared. This helped to guide business activities at the start-up phase and beyond and played a vital part in getting your business to where it is today. Of course, you are, or at you least should be, planning on an ongoing basis –at strategic, tactical (annual) and operational levels. In essence, you are always looking to the future and even if you are happy with your current performance, you will still want to grow and expand the business because to stand still can mean you are actually falling behind as your competitors outpace you. So growth, or manageable growth, is always a consideration but given that there are so many variables to consider when thinking about the future, it may seem odd to 'plan for growth', but this is what you must do.

Planning for Growth

Planning for growth is not a separate process to your normal planning activities, but it does require you to consider a range of factors which will influence your ability to deliver sustainable and manageable growth. Furthermore, if you need external support or financial assistance to help you capitalise on potential opportunities out there, then you may well need to prepare a written ‘plan for growth’, but even if you can internally fund expansion, you will still need a plan. This short guide will provide you with some food for thought when you are planning for growth and covers the following content:

1. Introduction **3**
2. Devising a growth strategy **3**
2.1 Existing products to existing customers 5
2.2 Existing products to new customers 5
2.3 New products and services 5
2.4 New delivery approaches 6
2.5 New geographies 6
2.6 New industry structure 6
2.7 New competitive arenas 7
3. Conclusion **7**

1. Introduction

Whilst it is natural for any owner or manager to want to grow their business, one of the most dangerous periods in the life-cycle of any enterprise is the growth phase. This is due to the fact that when growth comes, existing structures and resources within a business can come under significant pressure and on occasion this can lead to the enterprise becoming overwhelmed to the extent that the growth achieved actually damages the business. Effective planning can help prevent that happening to you.

"You will either step forward into growth or you will step back into safety."
Abraham Maslow, psychologist and business writer

2. Devising a growth strategy

The first stage when aiming for growth is to consider whether your business is well-positioned to capitalise on any opportunities that may be out there.

One useful tool to help you assess your current position is the Fáilte Ireland Business Diagnostic Indicator, which, if you have not already done so, is worth completing as it will give you a clear picture of the strengths/weaknesses of your business at this point in time. You will find the diagnostic in another section of this website. Other early questions to consider as you start to plan for growth are:

- Can you clearly identify where growth opportunities lie at present? How realistic are those opportunities for your business?
- Do you have the resources and expertise to capitalise on those opportunities?
- Were you to succeed in attracting the new business, could you manage it for best effect? Could you do so profitably? What additional human, financial and other resources might you need to help you manage the additional business?
- What would the likely returns be? Would they be sufficient to warrant the investment and effort?

These are useful early stage questions to consider and as you begin to ‘put meat on the bones’ of a growth strategy, a useful conceptual model to guide your thinking is the McKinsey Growth Model shown below:

McKinsey Growth Model

Seven Ways of Achieving Growth

7. New Competitive Arenas

6. New Industry Structure

5. New Geographies

4. New delivery approaches

3. New Products and Services

2. Existing products to new customers

1. Existing products to existing customers

How?

Acquisitions
Joint Ventures
Minority Stakes
Strategic Alliance
Marketing
Partnership
Organic Investment

Increasing risk with increase in controlling interest

The McKinsey Growth Model is based on the premise that business owners and managers should firstly consider four factors when preparing a growth strategy:

Core Competences – these are areas that your business might excel at, and as such they can serve to provide you with a competitive advantage as you seek to grow. This, for example, might be in the area of quality or customer service where you have recognised strengths over others.

Privileged Assets – these are assets you may have which can be hard to replicate by your competitors – for example, it can be a brand name, or maybe even intellectual capital of some kind.

Growth Skills – growing your business may bring with it many new challenges and these might not always be met with the same skills that got you to where you are today. For sure, there will likely be much overlap but, for example, were to you seek growth through acquisitions the skills required to negotiate such deals might be entirely new to you.

Special Relationships – these are relationships which you currently have with others that can give you an advantage; for example, perhaps you have strong relationships with tour operators or travel agents that can help you tap into new sources of business.

The above aspect of the McKinsey Model can be a useful thought-provoker as you think about growth and can help you to pinpoint areas where you might have competitive advantage, or even where others might have it over you. As shown, the model also addresses the ‘how’ question and focuses on a range of options from natural or organic growth to an acquisition-based approach. Within that, the model outlines seven ways of achieving growth, which are summarised below:

2.1 Existing products to existing customers

This is the lowest risk option and consequently is often the first port of call for businesses seeking to expand, whereby you attempt to grow your share in existing markets. Clearly, this is a positive option, certainly in the short term, as you already know the market(s), the customers, the dynamics involved and you have proven expertise in that market. Ultimately, in a static market, growing your market share means taking business from someone else – your competitors – and as a result, you need to reflect upon issues such as who those competitors are, what their relative strengths and weaknesses are in comparison to you, why customers are currently choosing them over you and so on.

2.2 Existing products to new customers

In this option, your objective is to find entirely new customers for your existing products. In a tourism context, there can often be cross-market appeal for similar products and with some minor changes in how those products are presented and/or delivered; you can attract new business for them.

2.3 New products and services

In adopting this approach, you raise the risk level in terms of investing in new products and services and as a result you need to be very clear as to the development costs involved and the likely returns that can be generated from that investment. Some of these new products and services can appeal to your existing customers, and as such you can consult with them in advance to define exactly what they may be, whilst they may otherwise be targeted at entirely new customers, which is always more of a challenge.

2.4 New delivery approaches

This is about finding new distribution channels for your products and services and whilst the internet and social media have created new channels for tourism operators, it is a matter of how effectively you use them that matters here; for example, many businesses use social media as a marketing/distribution channel, but few do it with any real success.

2.5 New geographies

This is a big consideration generally for Irish tourism enterprises as the industry has become over-dependent upon the domestic market over the past decade; as a consequence, seeking new international markets is a priority and there is clearly potential in emerging markets such as India and China but also in markets closer to home.

However, gaining a foothold within them is a major challenge and this is where you may consider marketing partnerships to help extend your reach.

2.6 New industry structure

This growth option is very much focused on an acquisition strategy whereby one player has the power to acquire troubled competitors to the extent that they can eventually change the dynamics of the industry. Given the fragmented nature of tourism, this option is less prevalent.

"Our goal is long-term growth in revenue and absolute profit, so we invest aggressively in future innovation while tightly managing our short-term costs."

Larry Page, cofounder of Google

2.7 New competitive arenas

Again, this option is less prevalent in tourism but involves a business focusing on whether its existing skills or assets could be applied in other industries, or at other phases of the value chain within its existing industry.

In reality, options 1-5 are most relevant to tourism entrepreneurs and as the McKinsey Model also shows these options can be tackled alone, or you can seek to realise growth by joining forces with another business in various forms such as partnerships/alliances, joint ventures or even through acquisitions.

Each of these business models brings with it a range of advantages but also increases the risk in various ways, not least of which can be a sharing of control, or in the case of acquisitions, the commitment of a significant amount of resources to 'buy' the growth you are seeking.

3. Conclusion

Clearly, the growth options and business models you select will be based upon your own circumstances, competences, resources and the opportunities you see available to you. However, regardless of how you seek to grow your business, the key message here is that you need to plan for that growth and in doing so you need to focus on aspects such as marketing, finance, human resources, operations and technology concerns so that you have an integrated approach to planning for growth. In particular you need to consider how you will finance your growth strategy and what the likely return on that investment will be. If you are seeking external funding for your strategy, then this may require you to prepare a formal 'plan for growth' and if this is required, a standard business plan framework which can be adapted for this purpose can be found on the Online Business Tools website. However, even if you are not seeking external support, you still need to plan for growth.

This guide has been provided to you as part of Fáilte Ireland's suite of guides and templates in the Online Business Tools resource.

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OBT-02OTB-PFG G1 11-12 4