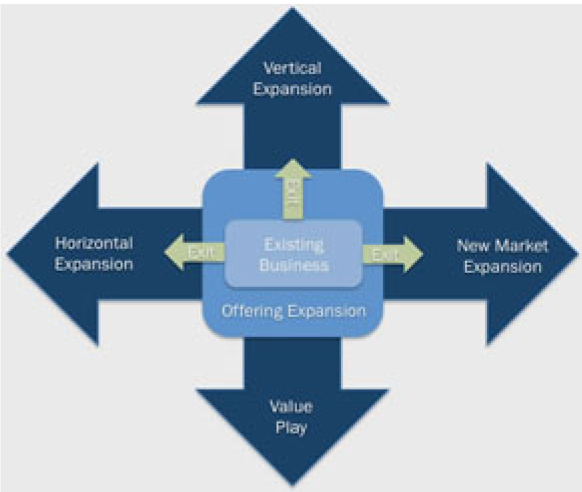
Growth Strategy

Companies inevitably face the question: how to grow the business outside your existing market? Emerging companies as well as established companies face this question. When a company is started, the best strategy is to focus on a single product and a single market to marshal all your resources towards winning that market. After a few years, you realize that the growth rates of this market and your own growth rates begin to slow.

The chart below provides a high-level framework for thinking about your growth options. Of course, the hardest part about strategy is choosing the best strategy with the highest possible return and the highest probability for your success. Additionally, no strategy is effective unless you know how to effectively execute on the strategy. That said, the first step is to understand the potential growth options.



Offering Expansion
For product companies, the natural growth option is offering expansion, such as adding support, consulting and other professional services. When adding services, there are a number of considerations. From a financial perspective, services have a different margin profile and business model, and may impact your financial model. From an operational perspective, this requires adding a services organization and

usually requires changing internal processes to accommodate the new business model.

Another growth option is to add tangential products and move towards a solution offering, adding different hardware and software. The different solution offerings are usually third party products. Although this can increase revenue, the growth is incremental and doesn't open up new market opportunities. Additionally, this can have different margin and logistical impacts for the internal organization.

Vertical Expansion

With vertical expansion, companies acquire different partners in the ecosystem or decide to directly compete with these partners. The two most common vertical plays are expanding into the go-to-market (GTM) area and supply chain area.

With GTM, this often happens in foreign markets where you utilize local partners to build a country/regional market presence for your products. You need to decide whether you want to directly enter the market with your own sales force or acquire the local partner. With the supply chain, this often happens when a supplier has high margins and you see the opportunity to reduce your costs by making a competing product or acquiring the partner.

New Market Expansion

With new market expansion, you are looking for new markets to enter that are unrelated to your existing business. Usually, you enter new markets with high growth potential to increase your growth opportunities or to prevent disruption of your core business from an emerging market.

When diversifying into new markets, choosing the best market is always a difficult task. Questions arise around whether the diversification strategy should drive the best market opportunity, the company's core competency or other factors.

Horizontal Expansion

With horizontal expansion, you are looking for a strategic move in your existing market. Usually, you are acquiring new users through international expansion, for example, or through consolidating the market by acquiring competitors.

Growth in your existing market is usually the best and easiest place to begin growth discussions. Until you are a solid #1 or #2 in your market, expanding into new markets may leave you exposed to competitors if the diversification move distracts you from your core business.

Value Play
Another important consideration in deciding on a growth strategy is to be patient and wait for the right opportunity. You may not have the resources or the market conditions may not be right. You can consider becoming a “value play,” reducing costs and increasing margins while you wait for the right opportunities. The goal is to preserve cash for now and wait for the right opportunities.

Exit Strategy
After reviewing the different growth strategies, many companies decide that exit is the best strategy. Your partners or competitors may be better positioned to grow and expand the business. Understanding the market and competitive dynamics may lead to the conclusion that it is time to exit the business.

Once you understand the different options, it is easier to evaluate each option individually and in comparison to the others. One strategy is not necessarily better than the other. Certain strategies will involve higher execution risk, and should be deprioritized. Additionally, when choosing a strategy, you should remember that the best strategy in the world doesn’t matter if your organization can’t execute on the strategy.