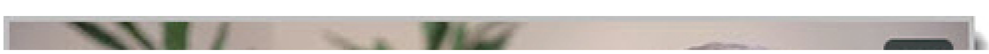
Growth: Making It or Buying It, and Doing It Well

Key disciplines of an effective orientation for both organic and inorganic growth strategies for manufacturers, utilizing Operational Excellence and Lean.

Executive Summary

Growth may seem elusive—especially in a mature market. Companies that aggressively embrace Operational Excellence execute better. They are better positioned for growth because they have greater flexibility and therefore can be more responsive to customer needs. The companies we see that are most successful in growing their business and sustaining that growth do so both organically and inorganically. The organic approach, or growing from within, involves leveraging Operational Excellence through embracing Lean methodologies and new technologies that drive speed, efficiency and employee engagement. It also involves listening closely to your customers.



The inorganic approach, or growing from outside, involves acquisitions: purchasing innovative tools, technologies or talent and gaining access to new markets. Inorganic growth requires the ability to rapidly transfer your company's knowledge, capabilities and business processes into the newly acquired business so that you can quickly realize gains.

Organic Growth

If you want to grow your business organically you first need to ask, What can I do to improve my new product development process? Your objective is to introduce high-demand, profitable products faster, better or cheaper so you can get to market more quickly while still delivering quality and value to the customer. Second, you need to understand why your customers choose your business. Understanding why your customers prefer buying your products and identifying your customer expectations for new products will allow you to align your product development processes to meet those expectations. It will also give your company a competitive advantage.

Hubbell, which sells power and lighting supplies and products globally, is one company that exceeded their expectations of what they could achieve. Using Lean and continuous improvement techniques—and listening to what their customers wanted—Hubbell developed a new product, the iFrame, within 11 months. Typically, their product development cycle took 18-20 months. They now use what they learned while developing the iFrame to tackle new project and schedule challenges.

Inorganic Growth

Taking the gains you made with more disciplined engineering principles and processes, you can look at inorganic ways to increase your company's growth. It's not enough simply to scoop up new companies. You have to find a way to rapidly transfer all the operational knowledge, capabilities and improved business processes from your enterprise into the acquired business. This will enable you to realize gains from the acquisition sooner.

The companies that are most successful in acquisitions are able to quickly integrate all of their business systems while minimizing waste, optimizing new talent, and acclimating the acquired company to their improved operational mode. Inorganic growth doesn't only come from acquisitions.

Another way to achieve inorganic growth is to launch new products to new markets, existing products to new markets, or by introducing new products to existing markets. Take Milbank Manufacturing Company, which supplies electrical distributors and home centers with electrical products. Milbank is an industry leader that successfully implemented lean manufacturing to improve its operating effectiveness. This freed up cash they could then leverage to fund further growth. Milbank thought they knew why their customers bought from them. But the results of a customer survey told a different story. Once Milbank knew the real reasons behind their competitive advantage, they knew how to leverage the results of their lean manufacturing processes and heavily promote those selling points to gain new business.

Challenges to Growth

At TBM Consulting, we occasionally hear clients voice three perceived obstacles to growth.

- *"We have the demand—we just don't have the resources."* Perhaps your company sees the opportunity for growth but you lack the operational capability or capacity to deliver it. Maybe you lack the resources or cost structure. In some cases the answer lies in streamlining your operations. That's what blue jeans manufacturer Ropa Siete Leguas did. For nearly 50 years Siete Leguas had been using batch production. Faced with competition from China and a high demand for jeans, they switched from batch to one-piece-flow. The result? They were able to increase their weekly output by 65% while also improving employee engagement, dropping turnover rates by a whopping 80%.

- *"Our market is stagnant."* Customer demand can fluctuate, causing growth to falter. In order to thrive in such a climate, your company needs to build a better mousetrap—better service levels, better quality, better price, more flexibility. You can also seek different product niches through new product development and/or acquisitions. Take the paper industry. Glatfelter, a 149-year-old company, began as a single paper mill to become a global provider of fiber-based engineered materials. Facing decreased sales of traditional paper, Glatfelter grew their product line through strategic acquisitions, particularly in their specialty paper business unit, which includes candy wrappers and high-end color-packaging applications for cosmetics. As a result their percentage for net sales in 2012 exceeded their target by over 50%.
- *"We need a better engine for growth."* Your company could grow faster if it could introduce new products faster, better, cheaper, and more profitably. Many organizations use "product vitality"—the percentage of new product or service revenue as a percentage of total annual revenue—as a key performance indicator for profitable growth. As a rule of thumb, organizations that generate at least 20 percent of their annual revenue from products introduced within the past three years are seen as "leaders" or "innovators" with a strong engine for growth. At or above the 20 percent threshold, there is a higher likelihood that you are producing products that customers want and value, which you can sell at a higher price point. New, unique products are generally more profitable because there are fewer competitive alternatives.

Key Disciplines of an Effective Growth Orientation

If you want growth, you need to think both organically and inorganically. Get closer to your customers and embrace Lean methodologies and new technologies that drive speed, efficiency, and employee engagement. If you can make something faster, better or cheaper, you've got a competitive advantage. Finally, get aligned:

- Create leadership commitment and behaviors that drive results;

- Identify, track and monitor the right metrics; and
- Relentlessly focus on process, root cause, and countermeasures to keep strategic initiatives on track. If you’re measuring what matters, you’ll keep your employees focused and improve the likelihood that your organization will consistently deliver.

Bob Dean, Co-Founder, Board Member, & TBM Alumnus

Bob Dean co-founded TBM Consulting Group 25 years ago. He recently retired from day-to-day consulting but he continues to serve on the TBM Consulting Group Board of Directors