



## A Framework for Rethinking Growth

Growing the top line is getting more important to managers. A study by McKinsey and Company provides strong research support to how important growing the top line is. The researchers tracked the growth patterns of the 100 largest companies in the US over a 20-year period. They found a strong correlation between revenue growth and the future survival of the business. Companies that grew more slowly than gross domestic product were five times more likely to succumb in the future (e.g., be acquired, go out of business, etc.) than companies that expanded more rapidly.\*

As this research shows, focusing on growth is important for very obvious reasons. How do you begin to refocus your organization on growth when the focus may have been elsewhere over the past years? In this paper, I outline a framework, what we call the Growth Ring, which can help managers analyze and define growth opportunities at three levels.

### **A Framework for Rethinking Growth Strategies**

Growth opportunities exist in many areas of a business. Too often managers do not look at growth comprehensively. The “Growth Ring” framework provides a way to systematically and thoroughly look for those all-important growth opportunities.

The Growth Ring framework consists of three elements: Recapture; Renew; and Redefine. Based on our experience, there are opportunities to increase sales in each of the three elements. The degree to which opportunities are present varies depending on the company’s situation in the marketplace. But there are likely to be opportunities for most companies in each element.

**Recapture**: This is where the low hanging fruit is found! This element is about your existing customer base and how effective you are penetrating each key account. In the recapture element, you look for additional sales opportunities. To find them, ask the following questions:

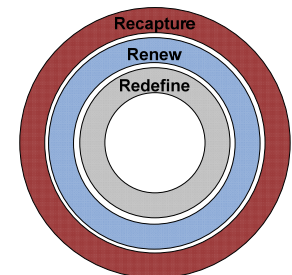
- For each key account or customer, what is your company’s share of that customer’s wallet? Analyzing key accounts rather than overall market share is essential. By doing the detailed analysis, managers will better understand these accounts, who the key competitors are, and why these customers are really doing business with the competition. Understanding why they are buying from competitors is an important first step in developing tactical plans to improve your wallet share in these accounts.
- Looking at your overall wallet share with a customer is useful. However, it is important to examine not only the amount customers are buying but what they are buying. Our work with clients shows that the more products and services customers are buying, the more likely they are to remain loyal.

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*McKinsey Study*

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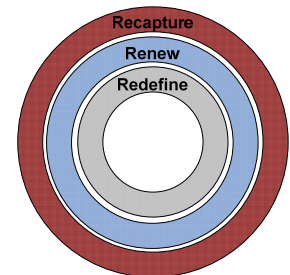


Banks learned this fact years ago. How often does your banker try to sell you a new service? This strategy applies to the industrial market as well. In a project for a value-added distributor, we found that if a customer purchased four or fewer services or products from this company that there was a far greater likelihood of losing the customer than if they purchased more than seven products or services.

- What has happened to lost customers? Can you list these key lost customers? What have you done to recapture them? Too often, when a customer is lost, they are “written off.” For example, in one project, interviews with several former customers revealed what the client needed to do differently. We asked what our client needed to change in order to do business with them. These former customers said “call on me.” They had been written off by the sales team. Often, there are sales opportunities present even among “lost customers.”

“Recapture” is about making the most of your existing customer base. For most companies, there are not likely to be huge growth opportunities present in this element but these are still possibilities that should not be missed. Current customers are also an important building block for present and future growth success.

**Renew:** Companies, like some individuals, allow themselves to become stale over time. It is inevitable unless there is an intentional effort not to allow it to happen. If the organization is stale, this extends to the company’s products and services (in the words of one client, “our products are just old and fusty”). At the product or service level, there are several approaches for improving sales opportunities:



- Repackage—This is not “putting lipstick on the pig.” Rather, repackaging a product or service provides an opportunity to align it more closely with customer needs. It also allows you to reintroduce the product or service and allow your customers to consider it anew. It often means having a better understanding of the value delivered to customers.

A good example is a flexible packaging company with whom we worked. The company had been trying to penetrate an attractive market but with limited success. Research with customers revealed that, among other things, they were looking for suppliers with new ideas, approaches and capabilities to solve their packaging needs. Because of significant capital and human investments made over the past few years, this client was in a strong position to offer innovative new packaging approaches—something they really had not communicated very well.

- Rethink—Customer needs are always changing. New technologies are constantly appearing to enable “rethinking” products or services. Yet, for too many companies, the product offering doesn’t look a whole lot different than five years ago. This needs to change and is the first step in this “rethinking” process.

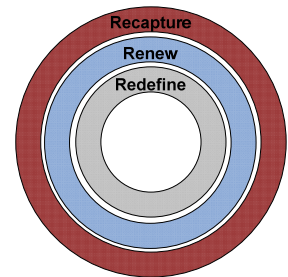
An example of great product “rethinking” is at [Environmental Inks and Coatings](#) in Morganton, NC. The company is a leader in the water-based ink market. It is a product innovator and prides itself on



outstanding customer service. However, several years ago the company faced a dilemma. There were a large number of customers that ordered ink in small quantities. It was simply not profitable to serve many of these customers. No amount of overhead trimming was going to reduce the costs to the level needed. Management rethought how they served these customers. They developed technology, similar to the systems in paint stores. The smaller ink customers bought base substrates from Environmental Inks and purchased or leased a mixing system from the company which allowed them to mix even small quantities of inks to their precise color requirements. This approach provided a win for Environmental Ink's customers because they could mix the required quantity of inks to their specific color needs and reduce their waste ink. For Environmental Inks, they were able to profitably serve this customer segment.

"Renew" is all about rethinking and renewing a company's product offering. The constant change in our world means that even things that seem immune from the change process are not. After all, 15 years ago, who would have thought of paying \$4.00 for a cup of coffee!

**Redefine:** This is hardest and most challenging element. If your company is in a situation where growth (and profits) are hard to come by, it is time to redefine the business. If you are effective at making the most of existing customer opportunities then there are probably few growth opportunities from this element. There may be some opportunities to renew the product line but these may be limited. The next step, short of exiting the business, is to redefine it. Redefinition means a radical remaking of the business. Here are two great examples:



Blue Rhino, a North Carolina-based company, redefined the propane gas cylinder business. Before they came along, when you wanted gas for your outdoor grill, you had to find a service station that provided the tank-refilling service. Now, it is as easy as visiting your local grocery store and "exchanging" your empty tank for a full one. Blue Rhino dramatically redefined not only the notion of tank exchange but also the ease with which you could do it.

Another example is [CPP](#) International. In 1999, the company was designing and manufacturing commodity notebooks sold through mass merchants. The market was becoming ever more price competitive with profitability being squeezed. The company redefined its business by designing notebooks aimed at pre-teen girls. The attractive designs became immediate hits with their target customers. Importantly, this company's sales and profits grew and it became a more valuable supplier to its customers.

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**CPP redefined its business by designing notebooks aimed at pre-teen girls. The attractive designs became immediate hits with their target customers. Sales and profits at the company have grown significantly.**

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## Getting Started

Our growth planning framework presents an effective approach to systematically look for growth opportunities. Given the fast-paced approach in most markets today, all three elements are needed to be successful. The need to focus on growth has never been more important than now. Companies that respond to the growth challenge will grow and prosper. A much different fate likely awaits those that do not.

\*"The Do or Die Struggle for Growth," Sven Smith, Caroline M. Thompson, and S. Patrick Viguerie, McKinsey Quarterly, 2005, Number 3

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**The need to rethink your products and services is continuous. By creatively rethinking coffee, Starbucks found consumers would pay a lot more for a cup of coffee than was true in the past.**

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