COLLINGHAM BUSINESS CLUB

... supporting local business success ...

Business Growth Strategy

This aide-memoire has been kindly provided by Andrew Barratt of First Sight Marketing

BUSINESS GROWTH STRATEGY

Achieving profitable growth is the aim and the of many businesses, but can lead instead to decline and failure with the most common causes being:

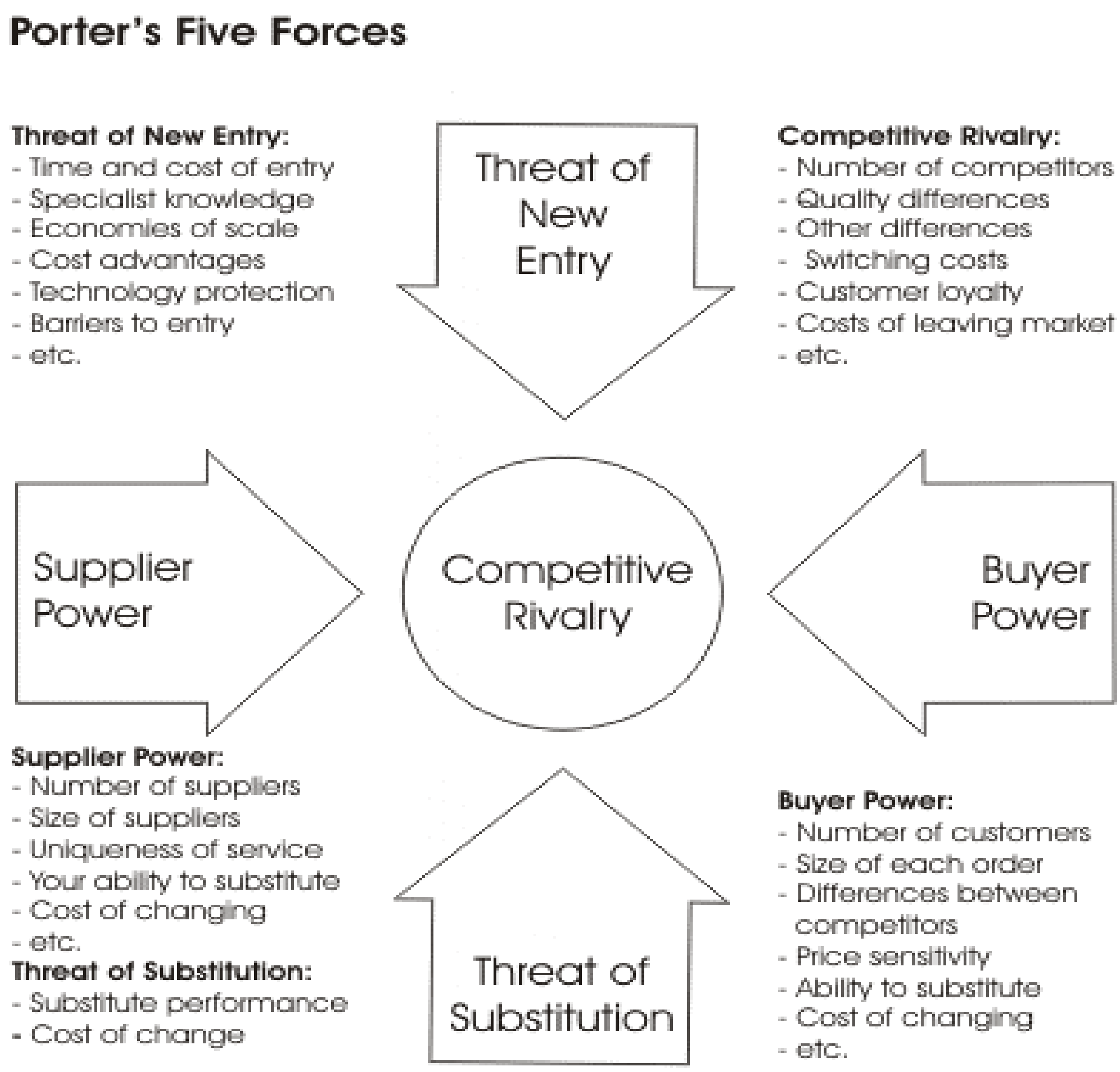
- ⇒ Too much Debt 28%
- ⇒ Inadequate Leadership 17%
- ⇒ Poor Planning 14%
- ⇒ Failure to Change 11%
- ⇒ Inexperienced Management 9%
- ⇒ Not Enough Revenue 8%

The aim of this Collingham Business Club therefore is to provide growing companies with a business tool ("Porter's Five Forces", depicted below)

Using the Tool

Five Forces Analysis assumes that there are five important forces that determine competitive power in a situation. These are:

1. **Supplier Power:** How easy it is for suppliers to drive up prices. This is driven by the number of suppliers of each key input, the uniqueness of their product or service, their strength and control over you, the cost of switching from one to another, and so on. The fewer the supplier choices you have, and the more you need suppliers' help, the more powerful your suppliers are. Examples are oil cartels - OPEC, banks and credit.



2. **Buyer Power:** How easy it is for buyers to drive prices down. Again, this is driven by the number of buyers, and the importance of each individual buyer to your business, the cost to them of switching from your products and services to those of someone else, and so on. If you deal with few, powerful buyers, they are often able to dictate terms to you. Examples are supermarkets, China.

3. **Threat of Substitution:** This is affected by the ability of your customers to find a different way of doing what you do – for example, if you supply a unique software product that automates an important process, people may substitute by doing the process manually or by outsourcing it. If substitution is easy and substitution is viable, then this weakens your power. Examples are IBM, wind-power (politics & PEST), e-commerce versus high street, the Channel Tunnel.

4. **Threat of New Entry:** Power is also affected by the ability of people to enter your market. If it costs little in time or money to enter your market and compete effectively, if there are few economies of scale in place, or if you have little protection for your key technologies, then new competitors can quickly enter your market and weaken your position. If you have strong and durable barriers to entry, then you can preserve a favourable position and take fair advantage of it. Why are the barriers to new arrivals taking your business? Examples are BSA versus Honda. Double Diamond and Worthington versus regional/niche brewers. Dyson (& hand-driers1), Starbucks.

5. **Competitive Rivalry:** What is important here is the number and capability of your competitors – if you have many competitors, and they offer equally attractive products and services, then you'll most likely have little power in the situation. If suppliers and buyers don't get a good deal from you, they'll go elsewhere. On the other hand, if no-one else can do what you do, then you can often have tremendous strength. What is your USP. Porter says you can only do certain things:

⇒ · Cost leadership whole market.

⇒ · Differentiation whole market.

⇒ · Niche market (cost leadership or differentiation).

Don't get 'stuck in the middle'!!!

Look at each area for your business – how do you improve the situation in your favour? How does this all relate to your business plan?