

SEVEN STEPS TO BUSINESS GROWTH IN TOUGH ECONOMIC TIMES
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Slide 1: Title

Thank you for inviting me to speak today to such a distinguished audience. Many of us have come to Houston from across the globe, to call this great city our home.

I consider this a distinguished audience because in each and every one of you is the future of the United States. Each and every one of you is a nucleus who has the potential to create a great, large business, contributing to the economic growth and strength of the United States and the world.

In my opinion, there is no such thing as a small business. We only have businesses that are biding their time to become huge successes. We don't have small businesses; we have emerging businesses.

Slide 2: Introduction: We help businesses grow their revenues and margins

I say "small businesses are emerging businesses" is because the three major jobs I held in my career were at companies that were startups, small businesses, when I joined them. Today, some twenty-five years later, their combined revenues are in excess of \$3 Billion.

Similarly, the rest of the firms I work with, in growing their businesses, are or were all "small businesses", except that they emerged into very large ones. In life, we have to go through childhood before growing into adulthood; so also in business.

Slide 3: Current Situation

Today, circumstances are challenging. We have ambitious profit and growth goals for our firms but we have to accomplish this in tough, turbulent times. We are no longer driving on eight-lane highways of 2007 and 2008; instead, we have to thrive on roads that are full of dangerous curves.

American consumers have increased their savings rate and are spending less; financing has become a bottleneck, limiting purchasing power. Consumers have changed their purchasing behavior. Price cuts and promotions have become less effective in moving products.

In response, businesses are doing everything we can to reduce costs to maintain our operational cash flow. Many have reached limits in cost cutting to improve profitability.

The crisis is of profitable sales, not costs.

So, in the current economic climate, how can a business still grow?

Our timing is just right because our competition, especially larger firms, are like eighteen-wheelers on this treacherous economic road; small, emerging businesses can be nimble and quick in responding to current market conditions.

We can win by taking advantage of the inertia that slows down large firms and customers who want a change to fit into their new economic realities.

Slide 4: Seven Steps

Here are seven steps that can help us *grow* our businesses:

1. Where's the Money? There are at least three parts to answering this question.
 - a. Choosing the right customers to serve,
 - b. Choosing what we sell to these customers, and
 - c. Knowing our competitors—they do come in five forms, four of these are clever disguises.
2. Where's the value for customers? Being a unique, trusted source of delivering value to customers. I'll shed some light about what is value and share some case histories with you.
3. Take advantage of market activity. A rising tide raises all boats. An increase in market activity will automatically raise our boat too, if customers are aware of us. This is easy. We don't have to do anything about it.
4. Improve pricing effectiveness. This is self-explanatory. Details to follow.
5. Steps 5 through 7 are in order of increasing risks, and with it, rewards. Increasing market share has the lowest risk, entering new markets with new products is the riskiest.

Slide 5: Where's the money? Focus on the right customers for profitability

Back in 2008, when all hell broke loose, I created this table to focus a client's attention on what we sell and to whom. We classified our customers into four categories based on American driving analogies. These classifications were customers who hit a wall, those that were braking hard, those that were driving cautiously, and finally those that were cruising. On the other axis, we classified a product/service we sold as a "necessity", a "nice to have", a "postponable" or an "expendable".

Why did I do this? In tough economic times, when there is excess capacity in the market, it is important to focus our attention on the right customers, selling necessities to customers who give us our highest margin share; these customers are those that are driving cautiously or are cruising. We should care about margin market share; focusing on revenue market share may lead us astray.

To grow our business, it is as important to shed unprofitable customers, as it is to acquire and keep profitable ones.

Slide 6: Where's the money? Turn Nice to Haves into Necessities

To compensate for revenue we lost in shedding unprofitable customers, we developed methods of turning “nice to have” products/solutions into “necessities” for these targeted customers.

We also poached on adjacent competitive segments but before I move there, I have to share with you my thoughts on competition.

There's only finite money in the market that our competitors and we are chasing. How are we going to grow our business? What's the source of our growth? It is going to occur at the cost of our competition. However, to get our hands on competitive money, we need to define our competition broadly, so we are not myopic in our market perspectives.

Slide 7: Where's the money? Know your competition

I define a competitor as anyone who stops me from grabbing a 100% of the margin in my business. (I know that a “100% margin share” is a monopolistic view on my part. It is the responsibility of my competitors to stop me from being a monopoly.)

There are many types of competitors:

1. Direct Competitors: They make similar products and attack us head-on.
2. Indirect: There are two types:
 - a. Substitution: These can replace our products, like saccharin, Equal and Splenda replaces sugar. Talk to manufacturers of music CDs about how Mp3 format and players, such as an iPod, changed their business. Talks to USPS about how snail-mail has been replaced by e-mail. Substitutions come from very different domains to fill a need. The so-called “cell phone” is substituting products and services at an incredible rate—watches, music players, PCs, GPS systems and many more.
 - b. Adjacencies: These come from the same domain as ours; they are right next door to us. These are clever competitors who coexisted with us in serving a customer. Suddenly, we find this coexistence has changed, as this friendly neighborhood competitor expands his footprint and aggressively, replaces the need for our product or service. An example: A cereal supplier creates a cereal mixed with dehydrated milk. All we have to do was add water. Voila! We would have an instant bowl of cereal and milk. Cereal has been milk's adjacent competitor for a long time. Water doesn't spoil as milk does; neither does dehydrated milk. I am sure cereal companies' labs are working on such a product.
3. Suppliers: All suppliers are competitors, some more than others, depending on their leverage over our fortunes. Customers have their own limits and there's only so much they will pay for a product/service. That amount has

to be shared across the entire supply chain. Each vendor in that supply chain tries to maximize his leverage to command a higher share of the margin that flows from that customer. In the personal computing hardware business, the firms with the highest leverage are Intel and Microsoft. If you consider that a computer is like a layer cake, with each layer supplied by different vendors, Intel tries to keep the ceiling of its layer as high as possible, while Microsoft, with its Windows operating system keeps the floor as low as possible. The assemblers of hardware—HP, Dell and others—are caught, squeezed in the jaws of an anvil that is constantly closing in. Beware of suppliers; if you are a supplier, make sure you constantly seek ways to find ways to increase your leverage over the customer. Indispensable service often helps.

4. Customers: These are the chameleons of the competitive world. While they can keep us in business, they can turn around and backward integrate—make the product themselves, buy a competitor, change their processes or habits and eliminate the need for our product or service.

If these are threats, they are opportunities too. What's sauce for the goose is sauce for the gander. We too can use some of these practices to gain margin share from our markets.

One more twist to this tale, every competitor can also be a customer. It's just a matter of economics. More about this later, in a case study.

Slide 8: Why do customers buy from us (or our competition)?

The only reason customers buy from us rather than our competition (and vice versa) is a combination of three facets. The first is that we deliver high value. The second is that we are unique, and the third is that we are trusted.

To grow revenues and margins, we have to be a unique, trusted source that delivers the highest value to our customers. Three key terms: Value, Unique and Trust.

Slide 9: Why do customers buy from us (or our competition)?

I want to repeat this so it gets ingrained in our minds: Customers buy from us because we are a trusted source that delivers unique value

We intuitively understand the meaning of the term trust and unique. Trust is to have confidence or faith in someone or something; unique means that something is one of kind, distinct, there are no alternatives. I have not found too many variations in commonly accepted definitions of “trust” and “unique”.

However, I do find a great degree of difference in the definition of value. For purposes of this presentation and discussion, I would like to define value.

Slide 10: What is value to customers?

The simplest definition of value is that it is “benefits minus cost”. That is how customers look at it and that is how we as sellers to customers have to look at it. To reiterate, value is equal to benefits minus cost.

The reason why convenience stores and gas stations charge us more for an identical product that you can get at a grocery store is because that they deliver the incremental benefit of convenience. They give us the same or similar value by increasing our cost.

Wal-Mart on the other hand delivers a higher value than the nearby grocery store by providing an identical product at a lower price. Wal-Mart plays with the cost end of the equation and reduces it, thereby increasing the value it delivers to its customers.

For the same product, convenience stores play the “benefits” end of the value equation; Wal-Mart on the other hand, plays with the “cost” end of the value equation.

But wait, there’s more to this question, “What do customers value?”

When we play with the benefits end of the equation, we should be adept at translating our benefits into monetary value, or else the value equation does not make sense. Cost is in dollars, value could be in dollars; to balance this equation benefits have to be also expressed in dollars.

To convince a customer that we are indeed delivering the highest value, it’s best to communicate in monetary terms, where value, benefits and cost are expressed in monetary terms.

In the industrial world, customers understand benefits expressed in three simple terms: cost reduction, revenue increase and return on assets. When we translate our competitive benefits into Dollars/Euros and Cents, we have a common platform and language to discuss with our customers value, as seen through the eyes of the customer.

Being successful in business is not only about delivering value but also about getting the right, competitive price for that delivered value. Without an understanding of the monetary value of the benefits, we will have a hard time to price our products and negotiate effectively. And, as we all know, we get to keep what we negotiate.

At this point, let me share four case studies, where we used this value-driven approach to grow businesses in very tough economic environments.

Slide 11: Case Study: Petrochemical Equipment Manufacturer

Challenge – Poor growth, declining margins, and market share at a 40-year-old firm

Solution – Focused on segments ignored by major players – replacement market.

Created a compelling competitive model based on rapid customer response that competition could not match. Value, Unique, and Trust.

Value to client – 300% revenue growth, 500% margin growth in 3 years

Slide 12: Case Study: Pharma Equipment Manufacturer

Challenge – Poor growth, declining margins, and market share at a 70-year-old firm.

Solution – Withdrew from low margin businesses and redeployed focus and resources to high margin ones, where we had Value, Unique, and Trust.

Value to client – 200% growth in revenue and 400% in margin in 2 years.

Slide 13: Case Study: Metal Alloy Manufacturer

Challenge - Stagnant revenues, declining margins and market share at a 50-year-old firm.

Solution - Pricing was changed from a "\$ per pound basis" to a "\$ per day" basis.

Customer could see value of extending life of equipment. Value, Unique, and Trust.

Value to client– Recovered market leadership in pricing, margins and share.

Slide 14: Case Study: Engineered Products

Challenge – Bleeding cash every month, tough competition all around in a commodity business; 80-year-old firm.

Solution – Special large volume relationship with the largest distributor. Turned some smaller competitors into customers. Value, Unique, and Trust.

Value to client– Cash positive in 3 months; acceptable profitability in 6 months!

Slide 15: What is value to customers?

I am simply reiterating that value is benefits minus cost and that all benefits must be expressed in monetary terms. It helps in selling and negotiating.

Slide 16: Value from customers' point of view

Often we look at ourselves from a very limited perspective, for providing a product or service. However, besides Functionality and Features, there are at least five other types of benefits that we may deliver to our customers: Improving their Processes, our Knowledge and Experience, Reducing Risk, Our Relationships, and our Market Presence.

Each one of these contributes to our “value” to our customers. If we don’t see our own value, we will price our product incorrectly, lose our profitability, and contribute to the industry’s loss as well.

What we have outlined so far are just some preliminary principles to profitably building our business—be a trusted, unique provider of the highest value to customers who assure profitability. Now we are set to see the five ways to grow our business, year after year

1. Take advantage of market drivers

2. Introduce new products
3. Enter new markets
4. Increase market share
5. Improve pricing effectiveness

Slide 17: Five points of growth

The *first point* of the growth star is taking advantage of market activity. It is the easiest of the lot. A rising tide raises all boats.

Market activity is driven by forces that are uncontrolled by customers and competition. These forces are Economic, Political, Legal, Environmental, and Others.

When a business has significant market share, its revenues may correlate with market activity.

Most businesses have industry market indicators for its market activities. A good example in the Houston area is the Baker Hughes Rig Count or even better, oil prices. As oil prices rise or fall, so does the overall economy of this area.

The *second point* is pricing effectiveness. This is the easiest to implement because this all about understanding the value we deliver and extracting that as profitability for our business. This point is too important to be a sub point on a slide.

Slide 18: Why improve pricing effectiveness?

Because a 1% increase in price results in more than 8% increase in operating profits at S&P 1500 companies. This was from a McKinsey & Company study. Don't underestimate the power of very tiny price improvements. They have multiplicative impact on our operating profits and EVA.

It is the fastest one to implement. All it takes is some homework but the results can be astounding.

It has significant incremental effect on market share, new products, and new market strategies and tactics.

Slide 19: Pricing effectiveness examples

I have many examples in various industries—Oilfield Equipment, Oilfield Services, Iron & Steel, Construction Services, Power Plant Services, Petrochemicals, Software—and across multiple countries of North America and Europe—USA, Germany, UK, Canada, France, The Netherlands, Belgium, Czech Republic and Poland. To see more details visit my web site at: www.seeta.com.

Slide 20: Five points of growth

The *third point* of the growth star is an exciting one—increase market share. Two ways of doing this—one is to get a greater share of our existing customers' dollars, and second, is to get new customers and a larger share of profit dollars from the market.

Our best bet is to get a greater share from existing customers because we already have a trusted relationship with them. Acquiring new customers is expensive.

We have already discussed ways that competitors poach on our share. The same strategies can be used to increase our market share.

The *fourth point* of the star is to enter new markets. Every business should have a new markets strategy/plan. A minimum is selling “existing products in new markets”.

Case Study: One of my clients was selling products into the construction industry. We correctly anticipated in 2006 a decline in that industry and took the product into a new market, sandblasting. As an added bonus, we raised prices by 50% in the sandblasting business. The client was very pleased with results.

The *fifth point* of the growth star is introducing new products. A lack of new products’ revenue stream is a leading indicator of business maturity and potential margin declines. Every business should have considered a new products strategy/plan. A minimum is a “new products in existing markets” plan.

Case Study: Another client, a global company, has to manage millions of tons of byproducts from the iron and steel industry. We constantly seek new markets for these byproducts. Some of the ones we are very active in are as soil additives and in the production of asphalt. In both markets, we have Value and Uniqueness but we have to build on the Trust front, by gaining referral customers. Building a trusted network of customers takes time but if we aim before we fire and don’t leave anything to chance, we can accelerate building Trust in these markets.

Slide 21:

To reiterate, there are seven major steps to growing businesses during recessionary or any other times. The first two steps are questions: “Where’s the money?”, “Where’s the value?”

Once we have answered them in a convincing way, it becomes relatively easier to embark on the five tactical methods of growing our businesses:

1. Take advantage of market activity
2. Improve pricing effectiveness
3. Increase market share
4. Enter new markets
5. Introduce new products.

Focus on the right customers and the value that customers see from our services and success will come our way.

Success comes with a double-edged sword. One edge is that we have to *sell* that we are a *trusted, unique* source that delivers the *highest value* to our customers; the other

edge is that we have to *extract the highest competitive revenues and margins*, for delivering that highest value to customers.

Deliver value with one hand and, with the other hand, extract a competitive price for the value we deliver. That's a major ingredient in the secret sauce of business success.

Slide 22: Final Word

Despite our best efforts, habits are hard to change. Do get help from a coach, an outside advisor. That person should help you look at your markets and business from the outside in, not inside out. The advisor should have had some experience with other companies, other industries and situations to give you perspectives about what worked, what didn't and why. Most important, get an advisor who has a proven process and methodology for arriving at answers you need to be successful. Often, the process is the answer.

Thank you.

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