

# Driving Profit

*Achieve accelerated growth with sustained profitability*

By Aldonna Ambler

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he secret to “achieving accelerated growth with sustained profitability” is to reverse the phrase. First, a business

must be profitable. Then, it must be able to sustain that profitability over a period of time. Next, various growth strategies can be explored. Accelerated pacing is considered last after sustaining both profitability and growth.

Each of us probably knows several company presidents who have embraced exciting growth strategies and stepped on the accelerator before they accomplished consistent profitability ... only to end up facing bankruptcy or reorganization. You don't want to emulate the mistakes made by the Boston Market restaurant chain in the late 1990s. They had what seemed to be a good basic idea, but they expanded too rapidly (before they achieved resilient profitability) and ended up more than \$50 million in debt. Replicating a fragile model through growth strategies such as geographic expansion, franchising, roll ups, etc., usually compounds the underlying problems. It is analogous to trying to save a failing marriage by having children.

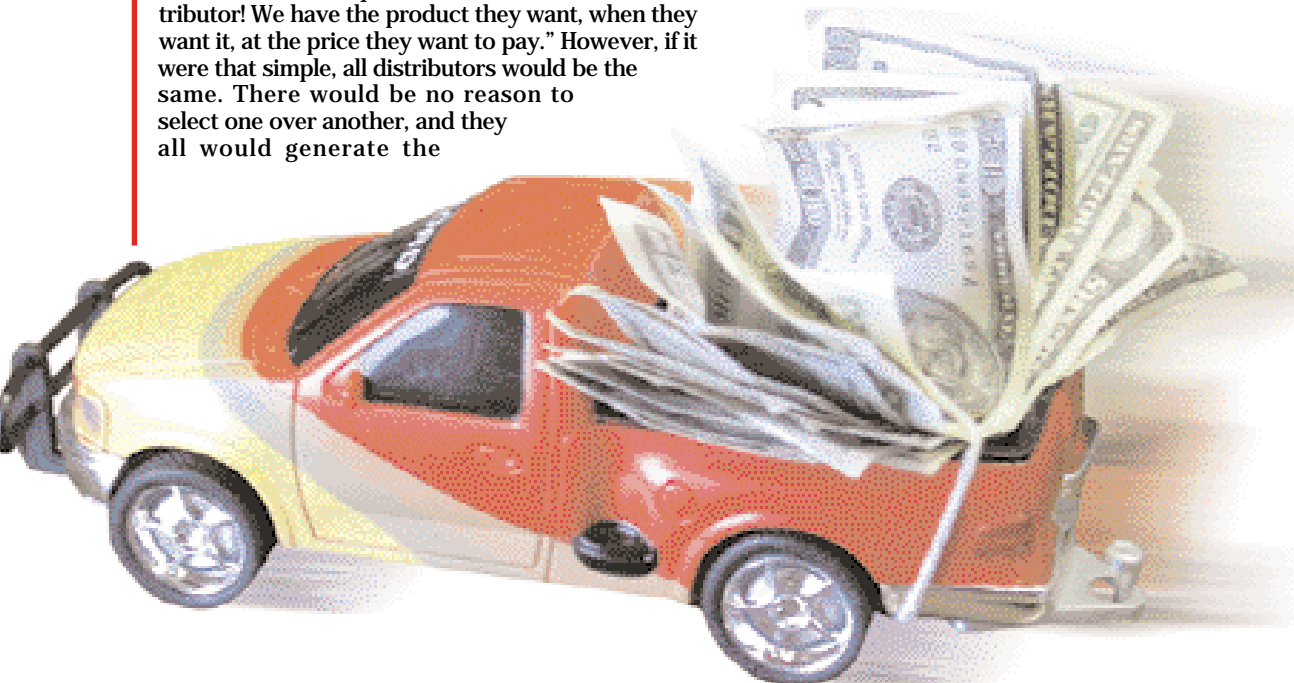
## What drives your profitability?

It is important to ask yourself what drives the profitability of your business. Many business leaders make the understandable error of concluding that the answer to this question is obvious. “We're a distributor! We have the product they want, when they want it, at the price they want to pay.” However, if it were that simple, all distributors would be the same. There would be no reason to select one over another, and they all would generate the

same level of profit. We know that isn't true. For the sake of example, we'll focus on a distributor, but the concepts are the same for any type of business.

Imagine that you are the president of Company A, which is a multi-branch distributor. Upon review of your client base and receivables, you discover a substantial portion of your overall volume comes from larger commercial accounts. You service the small, independent contractors well, but your company seems to attract the larger contractors and their project work. Herein lies your real profit. Do you know why? Is it the personalities of your outside sales force? Is it the speed and accuracy of your quotations department? You don't want to take this type of competitive advantage for granted, because it can be very fragile.

One of your competitors, Company B, is winning more business on price. Plus, it has extended hours of operation. A second competitor, Company C, wins some large project bids due to its extensive inventory of mainstream products. Continuing the hypothetical example, you conclude that you don't really know what the most important elements driving your profitability are, so you ask an outside research firm to conduct a customer survey for you, or you may choose to convene a customer advisory council. You learn that a few of your



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inside salespeople are the key to customer loyalty for the larger contractors.

### How do you sustain profitability?

Unfortunately, the profitability of most distributorships is fragile, because it is impacted by changes in the economy, the weather, the whims of manufacturers and the rise of box stores such as

Home Depot and Lowe's. To build resilience into your distributorship, you may need to solidify your approaches to recruitment, training, compensation and retention of inside salespeople. Company B may need to focus on simplifying procedures, controlling costs and stocking only "A" and "B" items. To build in resilience, Company C may need to conduct frequent surveys to know which brands are valued (cus-

tomers preferences evolve relatively quickly over time).

The reality of the distribution business is that all three companies will need to take multiple steps to build resilience in their profitability. All three companies need to strengthen their recruitment, training, compensation, retention, cost controls and inventory levels. However, in each scenario, it is a matter of emphasis. When you are busy trying to make 20 improvements all at the same time, everything seems important, so nothing is important. In the

### Money Highlights

- Understand the reasons why your company is profitable before trying to grow.
- Build resilience in profits by making improvements such as cost controls and increased staff training.
- Analyze which of the many growth strategies are feasible for your company.
- Once you decide on a plan, take action—waiting could give your competitors the advantage.

midst of all of your improvement efforts, the key is to take the time to determine which steps absolutely must be accomplished to help you sustain your profits.

### Choose a growth strategy

Once you are confident that your profitability is resilient, consider one or more growth strategies. The strategies might include improved marketing, specialization, strategic alliances, improved quality, diversification, acquisition, improved service, franchising, mergers, new products, licensing, increased control over channels of distribution, new markets, joint ventures, geographic expansion or roll up, depending on the type of company you have.

- **Improved marketing.** It is tempting to cut back on marketing, especially when the economy slows down, but piecemeal marketing seldom works. Investing in a new, innovative campaign can pay off only if all the necessary time and resources are dedicated to it. Something as simple as a new Web site or an improved product can be packaged as a campaign, making customers sit up and

take notice. Take the time to streamline existing marketing programs, too. Consistency is the key.

- **Diversification.** Adding a coordinating product or service is sometimes considered too expensive or risky. However, sometimes it is an easy way to grow. Why not look into other types of wood, like bamboo or exotics. Hardwood flooring contractors may put more effort into selling highly profitable add-ons, such as maintenance kits.

- **Mergers/acquisitions, joint ventures and strategic alliances.** Why not team up with for a project, merge with or outright buy your competition? These strategies offer excellent opportunities to grow. A strategic alliance is a great way to explore an idea you've had on the back burner and not go into debt trying it. Sometimes what starts as a strategic alliance may evolve into a merger or an acquisition. Perhaps you know of a millwork company that does fabulous work. Team up to offer decorative moldings or other custom work.

- **New markets and new products.** Conduct a brainstorming session to think of new markets to add to your

company's repertoire and new services for existing markets. However, don't drift too far from your existing product or service. A little market research money goes a long way for this growth strategy.

- **Specialization.** This can be triggered by your largest accounts or customers. Do more than just take care of them; "own" them by specializing to accommodate their specific needs. Once established, existing customers gladly will make referrals. Joining and participating in associations in your industry also will increase your customer base.

- **Improved service.** This can be done on any scale, for products and services. Seminars on customer service, automating procedures such as order entry (EDI for example) or even redesigning the human traffic pattern in your facility are examples of ways service can be improved. Or, develop a maintenance brochure that contractors can keep in their trucks to give to their customers. Then, publish the brochure on your Web site.

- **Geographic expansion.** It can be a juggling act to keep track of salespeo-

ple, warehouses and customers. Perhaps your company could expand to several branches around a central location. Divide your customers into zones and declare which branch, warehouses and salespeople will serve each zone.

- **Franchising.** This process is not as scary as it sounds. If a successful and profitable process can be replicated, taught and marketed, it can be developed into a franchise. A company that specializes in only one part of the franchising process may choose licensing as a growth strategy.

- **Roll up.** Rolling up several small(er) companies into one large one has many advantages. Volume purchases, combined inventories, new or more diverse product lines, etc., when managed appropriately, can lead to even bigger things, such as larger accounts or even an IPO.

- **Increased control over channels of distribution.** Depending on the company, this can be done in a number of ways. Automating procedures, building warehouses, buying more trucks and hiring branch managers can accomplish this growth strategy.

- **Improved quality.** Keeping one step ahead of the competition in both products and services can mean a world of difference to customers and usually is the No. 1 reason they return as repeat business and make referrals.

Ironically, all three companies in our hypothetical example might be interested when a fourth competitor decides to sell. You might want to hire the key players of that fourth company if its operations are similar to your company's or if the employees seem bright and receptive to change. Companies B and C potentially could be interested in purchasing different parts of the inventory of that same business, such as a warehouse full of finishes or sealers.

Your strategic alliances might be with vendors who want more project-related orders or with other service providers who work with larger contracting companies. Company B may prefer strategic alliances with other distributors that carry specialized products that service high-end customers, and Company C may elect to further align itself with specific manufacturers through cooperative advertising.

Your geographic expansion may be driven by the recruitment of pathfinders within new markets. Company B may expand by replicating the model of the first location. Company C probably will prefer to utilize large hub(s) serving smaller outlets. As you can see, the best growth strategy for one distributorship is not necessarily the best for another.

## Accelerating

Once you know what drives your profitability; have instituted systems that make your company resilient and help you sustain that profitability; and have selected growth strategies that match, it is time to consider picking up the pace.

Sometimes, it is very important to move quickly. If you move too slowly, you become vulnerable to the interference of any well-financed competition. This might seem like a matter of timing, but hesitation for any reason could cost you plenty. If the availability of money is all that stops you from accelerating, remember that growth financing is easier to obtain if you have a strong model that is well planned and can be replicated. ✦

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*Aldonna R. Ambler, "The Growth Strategist," owns Ambler Growth Strategy Consultants Inc. and can be reached at 888/253-6662 or at [www.TheGrowthStrategist.com](http://www.TheGrowthStrategist.com)*