

Growth Strategies

Businesses can follow many growth strategies when they wish to expand. These strategies typically focus on new products and/or new markets. (In this discussion, services are referred to as the products of a service business.) Three broad categories of growth strategies are:

- Intensive growth strategies
- Integrative growth strategies
- Diversification growth strategies

Intensive Growth Strategies

An intensive growth strategy is a growth strategy that focuses on cultivating new products or new markets, and sometimes both. Businesses use an intensive growth strategy when they believe they haven't fully realized their strengths or their markets. This strategy is best described as "doing more of what you are good at doing." The three most common types of intensive growth strategies are:

- Market penetration
- Market development
- Product development

Market penetration is an intensive growth strategy that emphasizes more intensive marketing of existing products. This strategy has two goals: sell more to existing customers and sell to new customers in existing markets. Both goals require extensive, and expensive, marketing (advertising, promotions, and so on). However, market penetration is a way for a business to increase its profits by taking advantage of its existing skills, experience, and knowledge about its target markets. It is a popular growth strategy for small businesses.

Existing customers may be convinced to buy more of a product if the business advertises new uses for that product. The makers of dry soup mixes could, for example, publish recipes for party dips made from their products. Businesses can also try to convince existing customers to buy a product more often. Toothbrush manufacturers advertise that dentists recommend replacing a toothbrush every three months. Existing customers may also buy more and buy more often if they are offered incentives, such as frequent-buyer programs.

Market penetration can also involve pursuing new customers in current target markets. Basically, the business uses marketing tactics to try to gain customers from its competitors. This increases a business's market share. Market share is the percentage of the total sales captured by a product or a business in a particular market. In other words:

$$(\text{Sales by Business} \div \text{Total Sales in Market}) \times 100 = \text{Market Share}$$

If a company sells \$1,000 worth of tennis rackets in a town where total sales of tennis rackets are \$5,000, the company has a one-fifth, or 20%, market share.

$$(\$1,000 \div \$5,000) \times 100 = 20\%$$

Once a business has the largest market share it believes it can capture, the next step is usually to find new markets.

Market development is an intensive growth strategy that focuses on reaching new target markets, such as customers in another geographic area or customers who have different demographics from current customers. A retail store might open a branch in a new city or develop a Website to sell its products online.

Product development is an intensive growth strategy in which businesses develop new products or enhance their existing products. Enhancements may include bonus features or new packaging for products. For example, they could add small toys as extras to cereal boxes. Product development is typically costly for a business but can be a successful means of growth if the new or enhanced offering is popular with customers.

TEAM PROJECT

1. Read over the material in this worksheet.
2. Summarize the 3 main topics on a PostIt Pad:
 - Intensive growth strategies
 - Integrative growth strategies
 - Diversification growth strategies
3. Answer the questions at the end of the worksheet (everyone in the team).
4. Be prepared to present to the class.



Integrative Growth Strategies

An integrative growth strategy is a growth strategy that emphasizes blending businesses together through acquisitions and mergers. Integrative growth strategies are typically more expensive than intensive growth strategies and are usually practiced by mature businesses with large cash flows. There are two types of integrative growth strategies:

- Vertical Integration. An integrative growth strategy in which one business acquires another business in its own supply chain, but not at the same supply chain level) is a vertical integration strategy. An example of this type of growth strategy is when a retail store buys a wholesaler. Another example is when a manufacturing business buys a retail store in which its products are sold.
- Horizontal Integration. An integrative growth strategy in which one business acquires another business at the same supply chain level as itself is a horizontal integration strategy. When one manufacturing company buys another manufacturing company, that's a horizontal integration strategy. The acquired business may be a competitor or a business in a completely different industry.

Diversification Growth Strategies

Every business has a core business, which is the most important focus of the business. For example, the core business of McDonald's is selling fast food. A diversification growth strategy is a growth strategy in which a business grows by offering products or services that are different from its core business. There are two types of diversification growth strategies:

- Synergistic Diversification. A growth strategy in which a business adds new products or services that are related to its existing products or services is a synergistic diversification. A clothing store that begins selling shoes practices this type of growth. So does an event-planning business that begins to offer catering services.
- Horizontal Diversification. A growth strategy in which a business adds new products or services that are not related to its existing products or services but appeal to its existing target market is called horizontal diversification. Recently some large grocery stores have begun offering credit cards to their customers. This is an example of horizontal diversification. Another example would be a gas station that sells food.

Questions for Discussion

1. List the three broad categories of growth strategies.
2. Name the three most common types of intensive growth strategies.
3. What are the two goals of market penetration?
4. Describe the difference between market development and product development.
5. List the two types of integrative growth strategies.