# CCE Scale-up and exit strategies

Nicolae Bibu, West University of Timisoara

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# Business growth

- **A growing business is one that is expanding in one or more ways** such as
  - Revenue
  - Sales
  - Company value
  - Profits
  - Number of employees
  - Number of customers
  - Market share and others

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# Business growth

- Companies **can grow in some of these metrics but not in others.**
- **It depends on the links between them**

- For example, **revenue can grow without an increase in customers** if the gains are caused by existing clients buying more.
- It's even possible for one metric to increase while another decreases;
- For example, if sales growth is brought about by a reduction in product price, a business's overall revenue could still go down.

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# What is business growth?

- = the **improvement of some part** of the success of an enterprise.
- Takes place in **raising its revenue** as well as **reducing overhead costs.**
  1. When a business begins to sell more products or generate more service income, the business brings in more money and is considered to be growing.
  2. When a business is able to cut costs and earn more money from raising profitability, it also grows.

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# What is business growth?

- **Really successful businesses have success in both areas**,
- sHaving success in one area often leads to another!

- When a **business sells more**, it is sometimes able to get a better price for its goods, which reduces overhead costs.

- When **overhead costs is reduced**, businesses pass on savings to the customers and attract more sales.

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# Why is business growth important for a small business?

- It's important that **all companies experience growth**.
- However, the **type of growth** required will depend on the stage of growth the business is in.

- **Start-ups** usually need to grow in order to cement their position in the market and quickly get to a size that is large enough to bring in **enough revenue to cover costs and begin to make a profit.**

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# Organic growth

- the growth of a business **through internal processes, relying on its own resources.**

- **Strategies** for organic growth include
  - optimization of processes,
  - reallocation of resources, and
  - new product offerings.
- **Measuring organic growth** is done by comparing revenues year over year   Revenue 2022/ revenue 2021 > 1

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# The five-stage growth model

- **1. The existence stage**,
- **2. The survival stage,**
- **3. The success stage** is split into two
  - The **success-disengagement stage** is when the company has achieved stability and earns large enough profits to survive. The business should be able to last in this stage forever, assuming no environmental changes. **No growth**
  - The **success-growth** stage  If a business goes down this path it will use its market position and strength to push through to the next level (stage 4)
- **4. The take-off stage**
- **5. The resource maturity stage**

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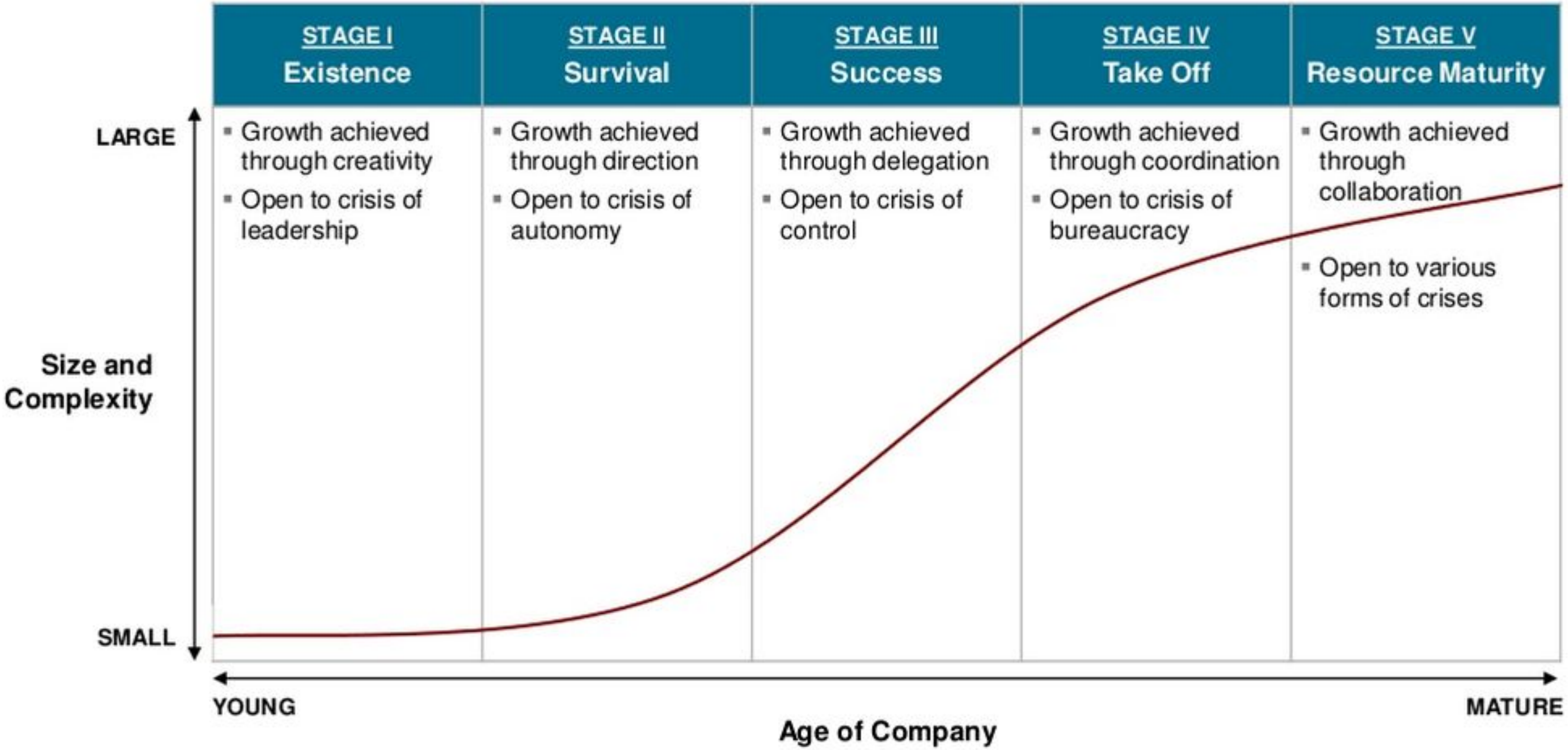
# The Five Stages of Business Growth




***As a company evolves through each stage, it is critical for the owner to know when to give up control and delegate responsibilities.***

Source: Churchill & Lewis, The Five Stages of Small Business Growth, Harvard Business Review

# 1·Existence stage (start-up stage)

- **During the existence stage**, companies focus on discovering whether the **business idea is viable** and,
- if it is, **expanding to a size that is large enough to make it a success**.
- There is unlikely to be a formal business structure and, assuming the idea is sound,
- the **main problem is likely to be cash**.

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# 2.Survival stage

- **During the survival stage,** the business will focus on growing to a size that is large enough to make the business work.
- The major challenge is still getting enough cash to cover costs and finance the growth required to enter the next stage.

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# 3. Success stage

- **The success stage** is split into two.
- 1. The **success-disengagement stage** is when the company has achieved stability and earns large enough profits to survive. The business should be able to last in this stage forever, assuming no environmental changes. **Growth stops here!**
- 2. The **success-growth stage** is when the company will **use its market position and strengths** to push through to the next level.
- Key challenges : ensuring that staff and procedures are in place to facilitate growth to the next stage.

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# 4. The take-off stage

- **A business enters the take-off stage if it is successful with the success-growth stage.**
- If **managed well** the company can become a big business or be sold to another party.
- If a business doesn't succeed at this stage, it may drop back to one of the earlier stages of growth or **go bankrupt and out of business**

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# 5. Resource maturity stage

- **In the resource maturity stage,** a company has grown to near its maximum size.
- it could be a **dominant force** in the marketplace.
- **Key challenges:** putting in place effective management structures and ensuring the company stays adaptable enough to react to environmental changes.

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# Measuring growth

- **The most important are 4 metrics**
- **Revenue** – Revenue shows how much money a company is bringing in.
- **Higher profits** – Higher profits are generally a sign everything is going well. However, businesses will still have to look at factors like the number of customers being onboarded or leads coming in to ensure future success.
- **Higher sales** – Increases in sales usually suggest a company is growing. Business owners should be wary if a short-term sales increase has been brought about by factors such as heavy discounts or if the increase in sales causes the company to be in danger of overtrading.
- **More customers** – More customers are a sign of growth. However, it can be an issue if customer acquisition costs are high and customer retention is poor.

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# Things to do

- **Set goals using these metrics!**

- **Collect data based on these goals**
- The more data companies have, the **more accurately** they can measure growth.
- More data will also enable businesses to **spot potential issues**.

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# Things to do

- **Take outside factors** into consideration.
- **Calculate your growth rate** by compare the figures that show a growth metric now to a figure that shows a growth metric at a point in the past.
  - Total sales 2022-total sales 2021 / total sales 2021 = % rate of sales growth
- **measure growth regularly,** on a continuous basis.
  - Keep monthly or quarterly records to have insight into how their business is expanding

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# Do you want to grow your company?

- **Yes or No**

a. If Yes, one you have set growth goals, next you **need to evaluate the opportunity** for growth (including internal and external analysis of the organization)
b. Do a **SWOT analysis**
c. Identify the **necessary resources**

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# Evaluation of potential for growth

**Analyze internal and external factors** – (SWOT)

- Internal:  strengths and weaknesses
- External:  opportunities and threats

- An analysis of the external environment **is key to uncovering** what current and future opportunities and threats might exist.

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# SWOT Analysis

- **Strengths**

- Valuable or unique **resources** of an organization or any activities that it does particularly well (**competences**) that can help managers to achieve their growth objectives

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# SWOT Analysis

- **WEAKNESSES**

- A **lack of specific** resources or abilities that an organization needs in order for it to do well;

- A **characteristic that hinders** the achievement of the strategic objectives of an organization.

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# SWOT Analysis

- **Opportunities**

- Conditions **(factors, events) (current and future)** in the external environments that have the potential to help managers meet or exceed organizational goals
- We estimate that there are **POSITIVE CONSEQUENCES for our business**

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# SWOT Analysis

- **Threats**

- Conditions in the external environments that have the potential **to prevent** managers from meeting organizational goals

- We estimate that there will be **negative consequences for the business**

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# Methods for the external analysis

- PESTEL method

- 5 forces model of Michael Porter

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# PEST analysis

- political, economic, socio-cultural and technological
- a framework of macro-environmental factors used in the environmental scanning component of strategic management.
- It is part of an external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro-environmental factors to be taken into consideration.
- It is a strategic tool for understanding market growth or decline, business position, potential and direction for operations.

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# **Political** factors

- relate to how the **government intervenes in the economy**.
- **Includes**
- tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability.
- goods and services which the government aims to provide or be provided and those that the government does not want to be provided.
- Furthermore, governments have a high impact on the health, education, **cultural industries** and infrastructure of a nation.

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# **Economic** factors

- include **economic growth**, **exchange rates**, **inflation rate**, and **interest rates**.
- These factors can **drastically affect how a business operates**.
- For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands.

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# Social factors

- in**clude the** cultural aspects and health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety.
- High trends in social factors **affect the demand for a company's products and how that company operates.**
- the ageing population may imply a smaller and less-willing workforce (thus increasing the cost of labour).
- companies may change various management strategies to adapt to social trends caused from this (such as recruiting older workers).

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# **Technological** factors

- **include** technological aspects like R&D activity, automation, technology incentives and the rate of technological change.
- These can determine barriers to entry, minimum efficient production level and influence the outsourcing decisions.
- Furthermore, technological shifts would affect costs, quality, and lead to innovation.

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# **Legal** factors

- **include** discrimination law, consumer law, antitrust law, employment law, and health and safety law.

- These factors can affect how a company operates, its costs, and the demand for its products.

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# **Environmental** factors

- **include** ecological and environmental aspects such as weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance.
- Currently,
- growing awareness of the **potential impacts of climate change** is affecting how companies operate and the products they offer, both creating new markets and diminishing or destroying existing ones

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# Other factors

- **Demographic** factors include gender, age, ethnicity, knowledge of languages, disabilities, mobility, home ownership, employment status, religious belief or practice, culture and tradition, living standards and income level.

- **Regulatory** factors include acts of parliament and associated regulations, international and national standards, local government by-laws, and mechanisms to monitor and ensure compliance with these.

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# Overview of Porter's Five Competitive Forces and Strategic Management

| Five Competitive Forces | Attractive to Strategic Managers When . . . | The Force Is Lower When . . . |
|---|---|---|
| Supplier power | Low | There are numerous suppliers. |
| Buyer power | Low | There are numerous customers. |
| Threat of substitutes | Low | There are few substitutes, or when the use of substitutes requires extra resources. |
| Threat of entrants | Low | There is a high capital requirement to start a new organization in the industry. |
| Intensity of rivalry | Low | There is a lot of differentiation among organizations, so that managers face little direct competition from other organizations. |

Sources: Adapted from Porter, M. E. (1980). *Competitive strategy: Techniques for analyzing industries and competitors.* New York: Free Press; and Porter, M. E. (1985). *Competitive advantage: Creating and sustaining superior performance.* New York: Free Press.

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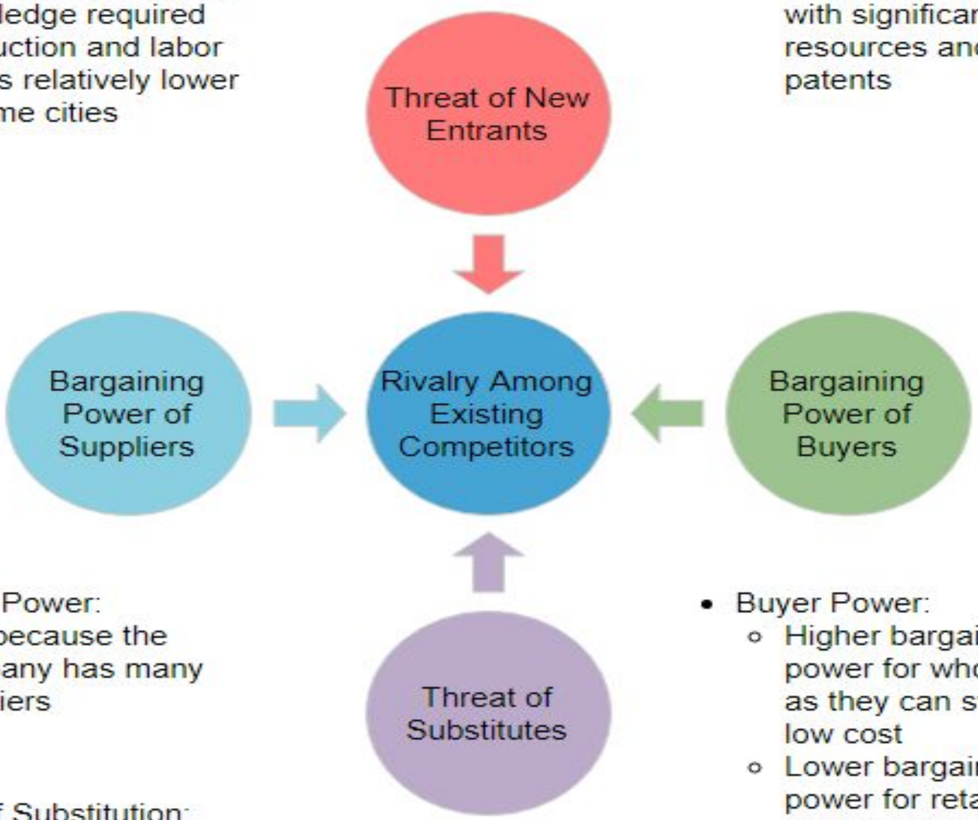
- Threat of New Entrants:
  - Low entry barriers
  - Low R&D expense
  - Not much specialized knowledge required
  - Production and labor cost is relatively lower in some cities

- Competitive Rivalry:
  - High competition
  - A lot of well-established companies with significantly large resources and process patents




- Supplier Power:
  - Low because the company has many suppliers

- Threat of Substitution:
  - Low threat due to high brand loyalty

- Buyer Power:
  - Higher bargaining power for wholesalers as they can switch with low cost
  - Lower bargaining power for retail customers as they are loyal to the brand

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# Ansoff matrix

- **Product/Market Expansion Grid,** is a two-by-two framework used by management teams to help **plan and evaluate growth initiatives**.

- is often used in conjunction with PESTEL, SWOT, and Porter's 5 Forces frameworks, to support more robust assessments of drivers of **business growth**

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# The Ansoff Matrix

- It features ***Products* on the X-axis** and ***Markets* on the Y-axis**.
- M*arkets* within the Ansoff framework can mean different things.
- **Example,** a jurisdiction or geography (i.e., the European Union *market*); customer segments (i.e., target *market*/demographic).
- **is used to evaluate** the relative attractiveness of growth strategies that leverage both ***existing* products and markets vs.** ***new* products and markets**, as well as the **level of risk** associated with each strategy

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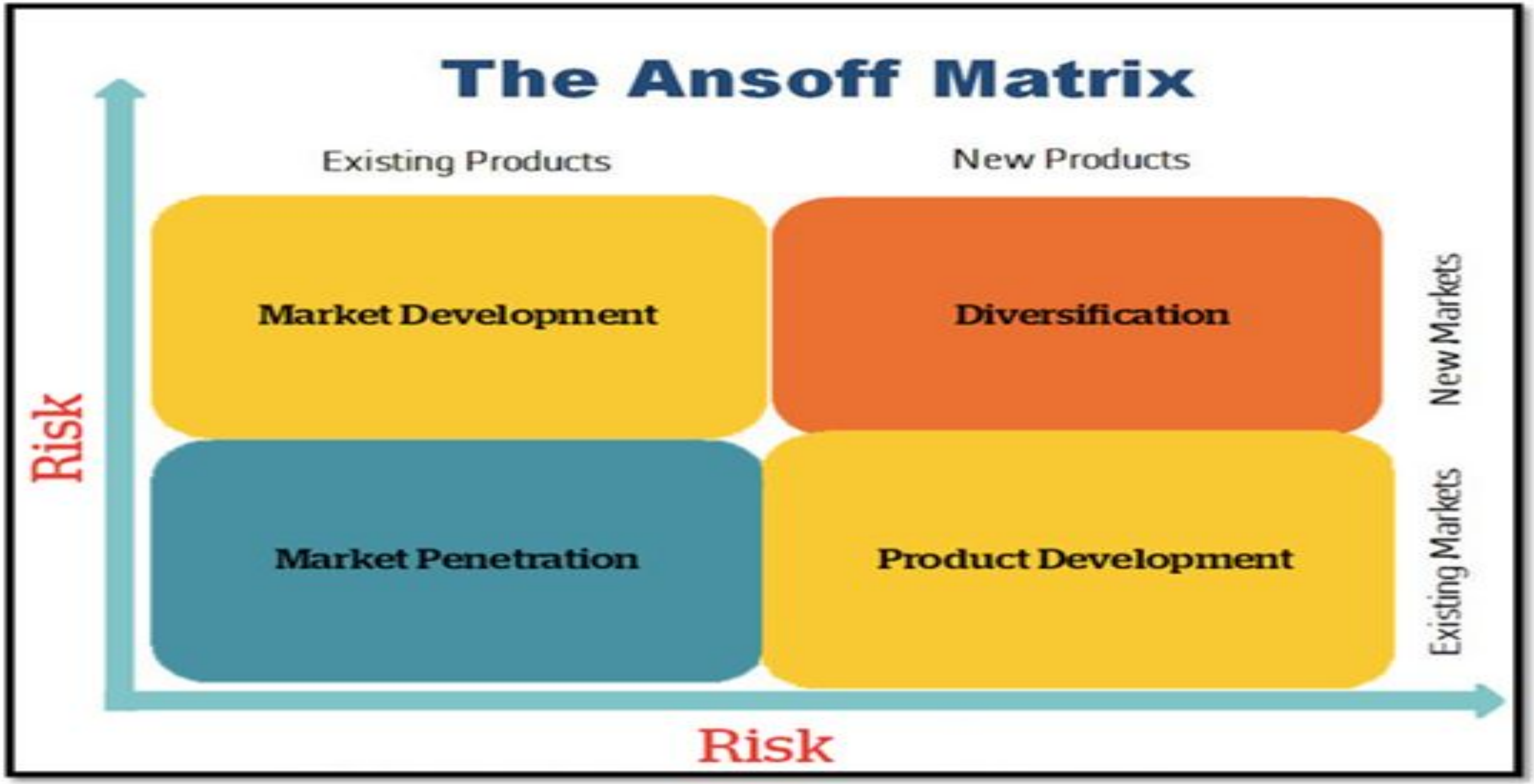


Figure 2: Ansoff matrix

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# Growth strategies

- Each box of the Matrix corresponds to a specific *growth strategy*. They are:

1. **Market Penetration** – increasing sales of *existing* products into an *existing* market
2. **Market Development** – Focuses on selling *existing* products into *new* markets
3. **Product Development** – Focuses on introducing *new* products to an *existing* market
4. **Diversification** – entering a *new* market with altogether *new* products

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# Market Penetration

- The **least risky** growth strategy
- Entrepreneur seeks to **sell more of its existing** products into markets that they're familiar with and where they have existing relationships.
- Typical **execution strategies** include:
  - Increasing marketing efforts
  - Streamlining distribution processes
  - Decreasing prices to attract new customers within the market segment
  - Acquiring a competitor in the same market

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# Market Development

- is **the next least risky** because it does not require significant investment in R&D or product development.
- **Consist of** leverage existing products and take them to a different market
- Approaches include:
  - Catering to a different customer segment or target demographic
  - Entering a new domestic market (regional expansion)
  - Entering into a foreign market (international expansion)

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# Product Development

- A business that has a **strong position on a particular market** or **target audience** may look to **expand its revenues** from that customer base.
- Is based on **brand loyalty**
- may be achieved in a **variety of ways**, including:
  - Investing in R&D to develop an altogether new product(s).
  - Acquiring the rights to produce and sell another firm's product(s).
  - Creating a new offering by branding a white-label product that's actually produced by a third party.

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# Diversification

- Is generally **the highest risk endeavor**;
- both product development *and* market development are required
- It can get **huge rewards** – either by achieving altogether new revenue opportunities or by reducing a firm's reliance on a single product/market fit (for whatever reason).
- There are generally **two types of diversification** strategies :
  - Related diversification
  - Unrelated diversification

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# 2 types of diversification

- **1. Related Diversification** – Where there are **potential synergies that can be realized** between the existing business and the new product/market.

- **2. Unrelated Diversification** – Where **it is unlikely that any real synergies** will be realized between the existing business and the new product/market.

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# Exercise

- Suppose that you want to grow your business and your goal is to **increase your sales in euros by 30%  in the next three years**.

- **Analyse the situation** of your business using the SWOT analysis.

- **Is the goal feasible? If yes,** what market strategy would you use and how you will proceed?
- **If no,** what would you do?

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# The process of growth

- **Step 1. Make something people want. Achieve Product-Market fit**
- Build products for your **customers together with them**
- Be sure **you know what they want**, which need your product should satisfy
- Find the **message that resonates** with them (your compelling story)

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# Step 2. Calculate how much a customer is worth

- **Key formula of Life Time value (LTV)**
- **LTV= order value X order frequency X customer lifetime**

- **Order value** = how much a user spends (Euro value)
- **Order frequency**= how often the buying is happening (daily, weekly, monthly, etc)
- Customer lifetime = for how long it will buy (months, years)

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# Best practices for boosting Lifetime value - LTV

- 1. Improve your onboarding process
- 2. Deliver outstanding support
- 3. Surprise and delight your customers

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# 1. Improve your onboarding process

- **1. Improve your onboarding process**
- Avoid that new customers find your product challenging to learn and use.
- A **user-friendly and pleasant onboarding** experience can make new customers immediate fans of your products and your company.
- **These customers will be more likely** to
  - stick with your product for the long term.
  - become champions of your product to coworkers across their company.
  - be interested in the other products you offer.

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# Deliver outstanding support

- to make sure **your support team is there for your customers when they need help.**
- Be sure your support team **receives training and information** on new products and all updates to existing ones.
- involve members of the support team in your **product, sales, and marketing discussions** more often to better understand who your customers are and what problems they're buying your products to solve.
- All of this will help make these reps **more effective and empathetic when customers call**—which will increase the likelihood that they will stay customers over a longer timeframe.

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# 3. Surprise and delight your customers

- **Periodically give your customers something positive that they aren't expecting.** Examples : automatically upgrade longer-term customers to a higher-level service of an app or let them know you're giving them free use of a new widget be selling to new customers.
- This is particularly valuable for **accounts whose usage has fallen off**. Those are the customers likely to cancel their subscriptions or, at best, not renew them when the current term expires.
- **For any customer, delivering a positive surprise now and then** is a great way **to keep that relationship going**—and add to that customer's LTV.

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# Customer lifetime cycle

- Pirates metrics of Dave McClure, a Silicon Valley investor and founder of 500 Startups
- **5 key stages** of this cycle AARRR(2A3R)
- 1. **Acquisitions** of a customer, generates **Cost per Acquisition (CPA)**
- **2. Activation** of the customer
- **3. Retention**
- **4. Refferal**
- **5. Revenue**

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# Acquisition Metrics

- acquisition refers to **all of the channels you use to introduce people to your product.**
- This could **include**:
  - Search Engine Optimization (SEO)
  - Social media
  - Marketing campaigns
  - Apps and widgets
  - Advertising

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# Activation Metrics

- refers to **users taking the desired actions**, or next steps, **after their first encounter** with your company's product, website, or content.
- **For example:**
- Visiting additional pages
- Experimenting with additional features
- Spending a given amount of time on your site or app
- Signing up for your newsletter
- Signing up for your free trial

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# Retention Metrics

- After you’ve “activated” new users by persuading them to take action, you’ll want to monitor **how many of these users are continuing to show interest in your product.**
- They might do this by:
- Returning to your product repeatedly over a given timeframe
- Returning to your website
- Opening your company’s emails
- Signing up for your RSS feed

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# Referral Metrics

- This refers to **users introducing your company or product** to friends and coworkers.
- are some of the **most difficult metrics to track** because people use all sorts of ways to tell others about apps and businesses.
- Use **tools and campaigns to track referrals**, such as:
  - Emails with referral promotions embedded
  - Referral contests
  - Other marketing campaigns designed to make it easy to share the product with others

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# Revenue Metrics

- You need to **identify actual revenue targets for your users**.
- It will help you understand whether or not your costs for acquisition, activation, and other efforts result in profitable growth.
- **know, for example, how to define users who** are generating:
  - Minimum revenue
  - Break-even revenue
  - Revenue that exceeds the customer acquisition cost

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# Cost per acquisition of one customer CPA

- **CPA = Customer Acquisition Cost / number of new customers**

- **Customer Acquisition Cost**, or CAC, measures how much money an organization spends in TOTAL to **acquire all the new customers in a given period of time**
- **CPA is the total cost** of sales and marketing efforts, as well as property or equipment, needed to convince **one** customer to buy a product or service.
- **Calculate CPA** by dividing the total expenses to acquire customers (cost of sales and marketing) by the total number of customers acquired over a given time.

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# Methods to calculate CPA

- **The simple method for calculating CAC:**
  - *CAC = MCC ÷ CA*
  - **MCC:** Total marketing campaign costs related to acquisition
  - **CA:** Total number of customers acquired
- **The complex method for calculating CAC:**
  - *CAC = (MCC + W + S + PS + O) ÷ CA*
  - **MCC:** Total marketing campaign costs related to acquisition
  - **W:** Wages associated with marketing and sales
  - **S:** The cost of all marketing and sales software
  - **PS:** Any additional professional services used in marketing/sales
  - **O:** Overhead costs
  - **CA:** Total number of customers acquired

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# Things to do

- know where (at which stage) EACH of your customer is?
- optimize at each stage, meaning make **CPA < LTV**
- HOW?

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# Cost Per Acquisition < Life Time Value

- 1. **Lower your CPA**, by improving your paid acquisition targeting

- 2. **Increase your LTV**, by improving your retention period, customer lifetime

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# How to lower your CPA

1. **Know your customer.** Knowing your customer's wants and needs help you create a product that will delight them.
2. **Engage customers early.** Earlier product engagement lowers acquisition costs per customer.
3. **Keep them coming back.** Create a positive customer experience because acquiring a new user is much more expensive than keeping an existing one.

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# Things to do

- Analyze **CPA in conjunction with Lifetime Value** (an estimate of how much revenue a customer account will bring in over its lifetime by continuing to purchase or subscribe for a longer period of time)
- **Or**
- Analyzing CPA in conjunction with **Monthly Recurring Revenue** (the measurement of revenue generation by month by a customer account)
- is a common way to discover whether or not a **company is operating efficiently**

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# Step 3. Define your metrics and channels

- **Quantify and prioritize**
- 1.Define your **Key Performance Indicators (KPIs)** for a precise period of time (month, trimester, year)
- Examples = value of sales, number of customers, cost of sales

- 2. **Brainstorm ideas for channels of distribution** and quantify them according to Cost, time, targeting customers and control

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# Define your metrics and channels

| IDEAS | COST | TIME | IMPACT | TARGETING | CONTROL |
|---|---|---|---|---|---|
| Perfect world | Low | Low | High | High | High |
| Content | Low | High | High | Medium | High |
| Paid acquision | Medium | Low | Medium | High | Mediul |
| SEM | Medium | Medium | medium | High | High |

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# Search Engine Marketing (SEM)

- **SEM is** the acronym for Search Engine Marketing, and unlike **SEO** (Search Engine Optimization) it encompasses **every publicity campaign available through search engines** (Google, Bing, Yahoo, etc.)
- SEM (also known as PPC) **attracts the most favorable user** traffic
- one of the **most frequently used** and important amongst all available marketing campaigns.
- **Its efficacy comes** from the simplicity of setting up a new campaign and the quality of the views each campaign receives.

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# Step 4. Implementation

- **Implement your ideas**
- Use **qualitative and quantitative data to make** informed predictions
- **Select 1-2 channels at a time** and define your test period
- **Analyse the outcome** of each channel and ptimize
- **Double the effort for channels that work** and
- **skip those which do not work**

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*End*

**Thank you !**