



## **The Art and Science of Profitable Growth**

### *Key Lessons Learned From Profitable Growing Mid-Market Companies*

After more than a decade of frantic cost cutting, rightsizing and balance sheet restructuring, U.S. mid-market companies are moving growth to the top of their CEO agendas. Because of the efficient management practices adopted in reaction to the recession, many mid-sized companies today are well positioned for accelerating profitable growth. But with growth comes conflicting demands for sparse investment dollars and an increased element of risk. Many CEOs are struggling with how best to transition their companies from a cost-cutting agenda to a growth agenda.

One way to build a robust growth agenda is to adopt best practices from successfully growing companies. Phoenix Strategic Advisors LLC recently conducted a study of 450 publically traded mid-market companies that consistently outperformed their peers over the last three years on both top and bottom line growth. These “Profitable Growers” delivered cumulative shareholder returns of 73 percent between 2012 and 2016, compared to just 23 percent for low profit growers, and 38 percent for cost-cutters.

This select group of Growth Leaders covered a broad range of industries and included leading mid-market companies such as:

Bridgford Foods (new product innovation targeted at health conscious consumers), Carter’s Inc., Columbia Sportswear, Castle Brands, Hain Celestial Group, Hanesbrands, Treehouse Foods, Smith & Wesson, WD-40 and WhiteWave Foods.

“We discovered through our research that profitable growth doesn’t always follow a strict scientific formula,” said Carrie Shea, Managing Director of Phoenix and an expert on profitable growth strategies. Studying data from multiple public sources including Morningstar Financial, Yahoo! Finance, analyst presentations, annual reports and news releases, Phoenix was able to isolate seven “Growth Leader Guidelines” that were common to most of the Profitable Growers.

### ***The Science: Seven Guidelines for Growth Leader Success:***

- **Pursue a focused growth agenda** with no more than three to four key growth initiatives. Success has as much to do with what you choose **not** to do as what you choose to pursue.
- **Understand evolving customer demand – current, latent and emerging needs** - so that you can deliver new products to unarticulated customer needs (e.g. tagless t-shirts and underwear) or to capture emerging customer preferences (e.g., organic, sustainable, etc.).
- **Assess Health of Core and Pursue Adjacent Growth Opportunities First.** Growth initiatives can tax a company’s resources and be detrimental to overall business if the core is not strong enough. So any growth initiative should begin with an assessment of the health of the core business.
- **Leverage industry tailwinds** as the best growth strategies identify emerging trends and align their growth agenda to take advantage of these key trends. Tailwinds may include macro-economic changes, demographic changes, technology breakthroughs, shifts in global demand, etc. (e.g., aging population, smaller families, universal access to mobile Internet, government restrictions on food ingredients, etc.).
- **Maintain a flexible cost structure** to achieve profit objectives. Many of the Growth Leaders we studied had done an excellent job of building flexibility into their supply chains and manufacturing networks, as well as into their product development processes.
- **Invest in building brand differentiation** in contacts with all stakeholders by underlying or emphasizing core products or company attributes through multiple platforms. (e.g. creating an engaged Internet community of users).
- **Invest in Emotional Connectivity with customers** by utilizing leading-edge predictive analytics to understand your consumer, customer, industry, and competition in a way that your competition does not. Research indicates that harnessing the power of emotional connectivity drives profitable growth

### ***The Art: Prioritization and Focus:***

While the above guidelines represent the Science of profitable growth, the Art of growth is also critical to success. According to Annette Carroll, a Senior Advisor with Phoenix, “ While most Growth Leaders tend to follow most of these guidelines, there is an Art as to how they prioritized and implemented the guidelines in their companies.”

The art of growth depends on a company’s willingness to balance tolerance for risk with growth goals. The most profitable growers took specific risks including strategic acquisitions of competitors and investments in new channels of distribution. The Art of growth also lies in how companies prioritizes growth initiatives and allocate sparse capital. Some of the more consumer driven

companies allocated sparse marketing dollars in order to gather proprietary insights into their consumers' behaviors and attitudes and invested in building emotional connections with their consumers. The more business-to-business oriented companies spent more energy maintaining a flexible cost structure through the use of strategic outsourcing, strategic alliances, and using vendor partners to drive innovation initiatives.

Phoenix learned from studying the most profitable growers, that the key to success is not just following a set of growth guidelines but applying them artfully as well!

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For more information about the art and science of achieving profitability, please visit Phoenix Strategic Advisors online at <http://www.phoenixstrategicadvisors.com>.

#### **About Phoenix Strategic Advisors, LLC**

Phoenix Strategic Advisors, LLC assists companies in accelerating profitable growth. The consultancy's partners are a blend of former C-level corporate executives and proven consultants from leading consultancies including Booz Allen, A.T.Kearney, and BCG. The firm serves C-level clients in the consumer products, apparel, retail, manufacturing and distribution industries in creating demand based growth strategies. Phoenix specializes in using strategic planning frameworks, proprietary customer/consumer insights, market modeling, and predictive analytics to build defensible and innovative growth strategies for clients.