

Using an Internal Assessment to Define the Best Growth Opportunities and Clarify Investment Priorities

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Since 2008, the economy has presented many challenges for manufacturing companies. Companies responded by streamlining manufacturing processes, reducing headcount and improving purchasing processes to reduce costs. **While these actions improved profitability, many manufacturing companies are struggling to grow.** Businesses in this position are often unclear about what opportunities to pursue first and how to prepare the organization for growth. Important first steps include obtaining internal profitability data and external market intelligence, improving decision making processes, and aligning performance measures and compensation with growth objectives. Of course none of this is possible without the leader embracing the need for change.

First, leadership needs to embrace the need for change. Common symptoms of companies in this situation include:

- *Stagnant Growth or Declining Revenue* - management attributes to the economy or the overall market
- *Resistance to Change* - a “this is the way we’ve always done it” mentality
- *Lack of Information* – management does not have or does not use information available to develop growth strategies
- *Lack of Fact Based Decision Making Systems* – management relies on “experience” and “industry knowledge” to make decisions
- *Highly Experienced, Long Tenured Work Force* – management’s long tenure and experience blinds them to changing market circumstances

Figure 1- Strategy Development Process



Once a leader commits to change it is critical to conduct an Internal Assessment (Figure 1) to identify priorities. An Internal Assessment includes the following:

Internal Management Interviews

- Define management hypotheses regarding the most attractive opportunities and key assumptions supporting those beliefs (e.g., what do we need to believe for a business to be successful?)
- Create a baseline of internal views to compare against the fact-based developed during the Internal Assessment

Inventory data, reports and information routinely used in decision making

- Provides an understanding of what (and how) information is used to make decisions
- Identifies what information gaps exist

Assess relative growth and profitability by segment (product group, customer and channel)

- Work with the management team to segment products, channels and customers
- Use internal data over the last 3-5 years to identify the size and growth of each segment
- Determine the profit contribution and trends by segment

Prioritize opportunities

- Conduct a working session with management to review the Internal Assessment
- Facilitate a discussion about strategic opportunities
- Develop priorities for further Market Assessment and Strategic Evaluation (Figure 1)

Conducting this Internal Assessment will help a manufacturer in several tangible ways, including:

- Benchmark revenue, cost and profit across products, customers and channels
- Identify unprofitable products, customers and channels that represent opportunities to further reduce costs or reallocate resources
- Provide a fact-base from internally developed information to compare to management's hypotheses regarding the biggest growth opportunities
- Uncover potential areas for consolidation of SG&A support and manufacturing
- Identify potential information gaps that exist in the company's decision making processes
- Prioritize products, customers and segments based on size, growth and profitability to ensure that financial resources and people are allocated most appropriately
- Identify areas for continued external market research and strategy development to capitalize on the best growth opportunities

Performing an Internal Assessment is a critical first step in preparing a company for growth, particularly after years of focusing on cost. Reviewing historic trends and comparing

to the management team's views – can generate significant insights for a business. New ways to reduce cost and shift resources to the most promising growth opportunities is likely to be more successful than simply cutting costs across the board. Additionally, this assessment will identify and prioritize potential growth opportunities within your existing products, customers and channels. While the company will still need to develop an external fact base, prioritizing these opportunities will keep the company focused and make the strategy development process as efficient as possible.

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