
UNIT 15 STRATEGIES FOR STABILISATION AND GROWTH

After going through this unit you should be able to:

- describe the various stages of growth in the life of a small scale enterprise
- explain the managerial implication of these stages
- discuss the strategies used for stabilisation
- enumerate the characteristics of growth business
- discuss and apply growth strategies for small enterprises.

Structure

- 15.1 Introduction
- 15.2 Stages of Growth
- 15.3 Stabilisation Strategies
- 15.4 Growth Strategies
- 15.5 Strategy, Structure and Systems
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- 15.7 Summary
- 15.8 Self-assessment Questions
- 15.9 Further Readings

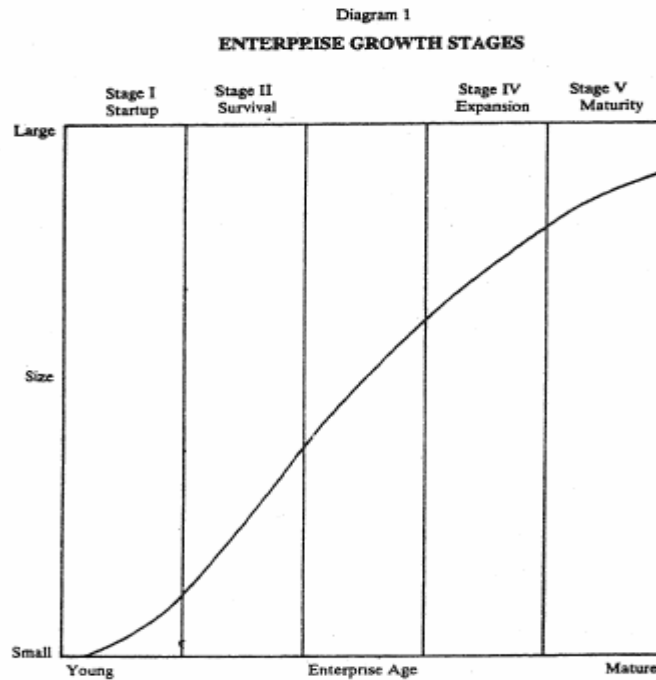
15.1 INTRODUCTION

In earlier Units we discussed the processes involved in the setting up of a commercially viable and technically feasible small scale enterprise (SSE). We also examined the various implications for functional areas such as finance and marketing in a SSE context. In this Unit, we will take a holistic view of SSL management at the stabilisation and growth stages of an enterprise. We will identify some of the successful strategies which might help a SSE pass through these two stages successfully.

15.2 STAGES OF GROWTH

We have studied that all products pass through different stages in their lives; this is called Product Life Cycle. Similarly, new and small enterprises pass through distinct stages (each with its own characteristics) as they develop and grow. The strategies required to effectively cope with each stage also vary. This calls for an understanding of what could be expected at each stage to enable entrepreneurs prepare themselves to avoid crises due to adjustment problems. Very often sickness in SSE is due to lack of such preparedness.

The stages in the life of a new firm can be broadly classified into five: start up, survival, growth, expansion and maturity. As shown in Diagram I, the enterprise, grows in size as it moves forward on the firm life cycle; firms grow older at the same time. It should be noted that size of the enterprise can be measured in different ways such as sales, assets and number of employees. It should however, not be construed that a finite level of activity measured in any one of these ways automatically takes any enterprise from one level to the other. the time taken for any firm to move from one stage to another varies widely. Also not all enterprises survive to grow large. This may be due either to the nature of the activity or simply to the personal desire or ambitions of the entrepreneur.



The characteristic changes that take place at different stages can be seen from the following illustrations.

	Start up	Survival	Growth	Expansion	Maturity
Entrepreneur Role	Direct Supervision	Supervised Supervision	Delegation Coordination	Decentralisation	Decentralisation
Management Style	Entrepreneurial, individualistic	Entrepreneurial, administrative	Entrepreneurial, coordination	Professional, administrative	Watchdog
Organisation Structure	Unstructured	Simple, centralised	Functional, partly centralised	Functional decentralised	Decentralised functional/product
Product and market	None	Little	Some new product development	New product innovation, market research	Production innovation

We notice here the metamorphoses taking place in an organisation at every stage. It is in this background that we look at the critical problems faced at each stage by an entrepreneur and the broad strategies required. For the purpose of our discussion here, we club start up and survival strategies together as stabilisation strategies and growth and expansion strategies as growth strategies.

Activity I

Collect data on a sample of five small scale enterprises such that you have one enterprise belonging to each growth stage described above. Do the characteristics displayed by your sample, in terms of management style, organisational structure, product and market, match these shown in the texts. Describe the characteristics shown by your sample, if they differ from the text.

Variables	Start up	Survival	Growth	Expansion	Maturity
Management
Stile
Organisational
Structure
Product
and
Market



15.3 STABILISATION STRATEGIES

This and subsequent stages of an organisation are different from the stage where an entrepreneur identified an opportunity and set up an enterprise. Now an entrepreneur graduates to become a manager. He has to undertake the functions of a manager such as planning, organising, coordinating and control. Several enterprises fail partly because they do not get adjusted to the new responsibility of a manager.

This is essentially the stage when a new enterprise gets settled down and stabilises its activities. This is where we find entrepreneurs start getting orders regularly and supply stabilises. The firm's sales crosses the break even point for the first time at this phase. Also in the light of increased capacity utilisation the firm gets more inflow of cash than outflow.

Stabilisation phase can be treated as one of the most critical periods in the life of any enterprise. This is especially so in the case of SSE mainly because the entrepreneur has to run a one-man show taking care of most of the operations. He will have to spend enormous amount of time on the new enterprise. It is like taking care of a new born baby until it can manage its affairs on its own. -The entrepreneur has not only to have a long-term vision and strategy for the organisation, but also have adequate knowledge to solve problems arising in areas such as finance, marketing, production and personnel.

In short, the major challenge will be in terms of manufacturing a product or providing a service which will be commercially acceptable in terms of price and quality and establishing a place for it in the market place. This is the process of creating an identity for the firm in the commercial society. In most cases, entrepreneurs start with a single product or service. In the following paragraphs we shall see some of the critical areas of concern at this phase and the possible strategies to overcome them.

Cost and Time Overruns

Very often entrepreneurs believe that what has been planned in the project report would come true, and there would be no time and cost overruns. In reality, all assumptions made regarding completion of procedures, availability of finance, input and market conditions do not hold good when the firm starts commercial operation. To elaborate, if an entrepreneur has already spent all funds available On creation of fixed assets, resulting in cost overruns, there will be hardly anything left for working capital margin money. As a result, the firm will not be able to maintain the level of operation projected earlier affecting its profitability badly. Under such circumstances, the entrepreneur will have to review his plans for working capital management. If more funds are invested in fixed assets than anticipated, the break even level of operation of the firm would go up, again affecting its profitability. Also, because of time overruns, if competitive position of a new enterprise is threatened by environmental changes, the entrepreneur may have to review both input and output strategies to be competitive.

This calls for reassessment of the project, not only its external environmental opportunities and threats, but also internal strengths and weaknesses. The enterprise strategy has to be reformulated in the light of such an exercise; accordingly, functional strategies also will need revision. New small entrepreneurs are best advised to make realistic or rather conservative estimates and keep enough liquidity to cope with changed-situations.

Building Strengths

All enterprises require certain strengths, but they vary from firm to firm depending on the size, nature and level of competition. Most entrepreneurs may not initially possess multifaceted skills-required to adequately attend to all the functional areas. Deficiencies in any area would naturally affect operations of an enterprise to small or large extent depending on the criticality of the function. For instance, several technically qualified entrepreneurs who can produce high quality products miserably fail for lack of marketing skills or for improper costing and pricing. Cost conscious financial experts, on the other hand, often fail to produce good quality products acceptable to customers. Despite their limitations, many entrepreneurs successfully tackle stabilisation problems. They are aware of their strengths and weaknesses and the criticality of each



function. They handle functions where they are confident of their strengths, but try to acquire additional strengths wherever and whenever required. Some entrepreneurs possessing expertise in production ask other organisations to carry out the marketing tasks for them. They may either continue this arrangement or start marketing on their own after some time once they have acquired enough expertise.

It is clear from the above discussion that entrepreneurs should be realistic about their strengths and weaknesses. If they do not possess some critical strengths, they should either build them or recruit/associate with others to have the benefit of their specific strengths. It will be suicidal to venture into entrepreneurial activities without recognising the strengths required to exploit opportunities and thwart threats, and the willingness to build strengths whenever required.

Coping with Competition

In the conventional sense competition is considered only in the marketing context. Porter (1980) has, however, shown that this is a limited vision. In fact, an entrepreneur faces competition from four sources: existing firms in the same line of activity, suppliers of inputs, buyers of product or service, and possible substitutes. It is the bargaining power a firm has against each of these constituents which determines its competitive position. For instance, while projecting the market demand, very often entrepreneurs do not anticipate the ways in which firms in the same activity would react. If the market size is vast and the new entrant is insignificant in terms of size of operation, retaliation from competitors will be minor. There are, however, situations where a next door neighbouring shop might retaliate badly for sheer survival.

Suppliers of materials, labour and infrastructure also might change their strategies based on the changed situation emerging from the entrance of a new entrepreneur. Similar might be the effect on buyers and possible substitutes. The basic rule to follow in such circumstances is to "Know thy competitors well, their strengths, weaknesses and strategies".

Recruitment and Retention of Personnel

One of the major problems faced by new enterprises is identification, recruitment and retention of the right kind of personnel. A new enterprise is generally weak in terms of an established name and ability to offer very attractive terms of employment. Above all, an entrepreneur should recruit the right kind of people who could contribute to the success of the organisation. Their attitude to work, temperament etc. are important considerations for a good entrepreneur. These conditions are not likely to motivate good quality people to join such a new enterprise. They would be concerned about factors such as lower than average remuneration and other terms, risk of losing job, and lack of job satisfaction.

An entrepreneur should be clear about his personnel policy from the very beginning. Several entrepreneurs use their social contacts to recruit people. Some of them explain to their employees the enterprise mission and strategies. They might offer part ownership in enterprises or have some profit sharing schemes. The enterprise strategy towards personnel should be formulated based on these realities.

Avoid Overtrading

In their eagerness to grow fast, some entrepreneurs tend to undertake more work than what they could really do with the available resources, leading to overtrading. Such instances might result in imbalances in the system such as building up of inventories or receivables without leaving enough cash to carry on operations. This results in effective reduction in working capital and could lead to industrial sickness unless rectified in time. Entrepreneurs have to remember that they should bite only what they could chew.

Developing Systems

Closely linked to strategy is the control systems in any enterprise. Although, no formal systems could be noticed in a new enterprise at this phase, the entrepreneur should start working on the development of systems of control. It is when systems get established that entrepreneur finds more time for developing new strategies.

In short, stabilisation strategies are critically important for the very survival of the enterprise. It is entrepreneurs who can keep on expanding activities in the beginning according to organisational capabilities. are the ones who can cross the stabilisation



phase successfully. Several entrepreneurs remain in this phase for lack of any clear strategy. We have to remember that a new enterprise is like a new baby; it needs attention, tender care, but no overfeeding. Similarly, a new baby should not be forced to walk or run before it learns to crawl and sit.

As an enterprise gets stabilised, it has to start thinking in terms of its growth, unless, of course, the entrepreneur consciously decides not to grow. In the rest of this unit we shall see what growth strategies are and how such strategies help firms achieve fast growth. Discussion related to stabilisation strategies such as overtrading will continue to be relevant even in this stage.

Activity 2

Talk to at least 3 entrepreneurs who have recently set up their small enterprises. What were their problems in the phase-of stabilisation? What were the copying strategies they used to get over these problems?

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Can you suggest some suitable alternatives to these entrepreneurs (looking to their specific problems) for their stabilisation related problems.

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15.4 GROWTH STRATEGIES

These strategies are formulated and implemented by firms which want to grow. Such firms have to maintain sustainable competitive advantage by delivering superior value to the customer. Although it is difficult for any firm to be an ideal growth business, it is worth attempting to reach that ideal. Some of the important characteristics of an ideal growth business are given below (adapted from Hann, 1987).

- A near monopoly that can dominate a market because of patents.
- A business where the rate of growth in profits is far higher than the rate of growth in sales.
- A business which can grow relatively independently of economic cycle.
- A business that has a consistently high rate of inquiries and new and repeated orders.
- A business that is dependent on management talent.

It becomes apparent from the above that only firms providing unique products or services which are highly valued by customers can grow fast. A fast growth entrepreneur would shape his strategy depending on the situation. For instance, manufacturers of detergents such as Nirma and Surf follow entirely different strategies. So is the case with match box manufacturers such as Wimco, a multinational on the one hand and small scale competitors on the other. Manimala (forthcoming) observed after a study of 186 decision heuristics (rules) that most of them are context specific: Nobody should try to copy any heuristic blindly. Some of the important strategies which can achieve this are discussed here.

Value for Money

Growth firms provide value for money to their customers. They provide so much value to the customers compared to the 'cost involved that the customers are promoted to buy the product or service repeatedly and/or in larger quantities. For instance, a new bakery operator started and grew very fast to become the largest confectioner in the city mainly because he always provided very high quality products to customers. They always wanted such products and were willing to pay a little more for better quality products. This new entrepreneur was the first to notice this as an opportunity and exploit it. What he did was to give value for money to his customers. It is not the absolute amount of money, but the value in relation to the price they pay that matters. This is applicable both to manufacturing and service sectors. In India, a



significant number of the urban customers are not happy with many of the things they buy or the service they get. They are willing to pay a little more, if the product or service is worth it. Growth entrepreneurs keep exploiting such opportunities.

Grow Your Customers

Growth of an entrepreneur depends on the satisfaction and growth of his customers. This is especially so in intermediate products or services. For instance, a small scale chemical industrialist developed a unique solvent to act as a drying agent in paint industry. He demonstrated to his paint manufacturing customer that by using his new solvent the paint quality would improve. The paint manufacturer used it and achieved better turnover. Similarly, a textile processing entrepreneur built up his customer base by giving useful suggestions to them on colour and shade combinations for fabrics.

In order to provide value for money and grow customers, an entrepreneur has to convince his customers with three things.

- a) How much: The entrepreneur should be able to convince his customers with the quantity of incremental returns on his investments that is possible by buying the entrepreneur's product or service. In the case of consumer products, it is the incremental benefits or satisfaction which the consumer derives that matters.
- b) How quickly: The entrepreneur should be able to tell the customer the speed with which he would be able to supply the product or provide service. In a competitive environment, speed is an important factor. This means that if the entrepreneur wants to help his customer grow, he should do it fast.
- c) How definite: The customer should be given a definite idea about the entrepreneur's capabilities to help him grow. He will buy and continue to buy only if the promise stands the test of time.

One important observation we have to make on the above discussion is that we have not been talking about profits, but customer satisfaction. Although an entrepreneur has to make higher levels of profit, it should not be the bottom line to work towards. He has to think beyond, towards the customer without whom he cannot achieve growth and sustain it. This means providing growth values on a consistent basis. Also entrepreneurs should approach their customers and prove their growth values (such as the above) to build up business, to Make a better impact. In other words, entrepreneurs should think of long term growth of the organisation and factors influencing it.

Maintaining Leadership

In a competitive environment, maintaining leadership is not easy. New substitutes and products made using new technologies would keep entering the market eroding competitiveness of existing firms. Under such circumstances, constant product improvement becomes essential to maintain product differentiation. Even in fields where competition is limited, it is worth attempting technological improvements either for cost reduction or product improvement. This means that the experience curve of such firms keep shifting continuously.

This is well reflected in the air cooler industry in the recent years. Although it is a seasonal industry, of late there is fierce competition to capture the top end of the expensive market segment. For instance, a leading national level manufacturer in the small scale sector entered the market with a revolutionary idea; an air cooler looking like a room air conditioner. It was technically far better than a conventional air cooler. He improved upon his new "air conditioner looking air cooler" and introduced three different models in three consecutive years, always improving upon the previous one, making it difficult for his competitors to catch up. Peter Drucker (1985) called it "fustest with the mostest" strategy. In the case of the solvent manufacturer referred to earlier also, there is a strong sense of product differentiation through technological development.

Developing a Niche Market

It is generally difficult for a small scale entrepreneur to be the leader in the national market in all the segments. Since customer requirements of the different-segments vary, product/service features also will have to vary. Under such circumstances, most growth firms tend to specialise in a segment of the market, finding a niche for the produce/service. Such specialisation enables new firms to acquire and use their

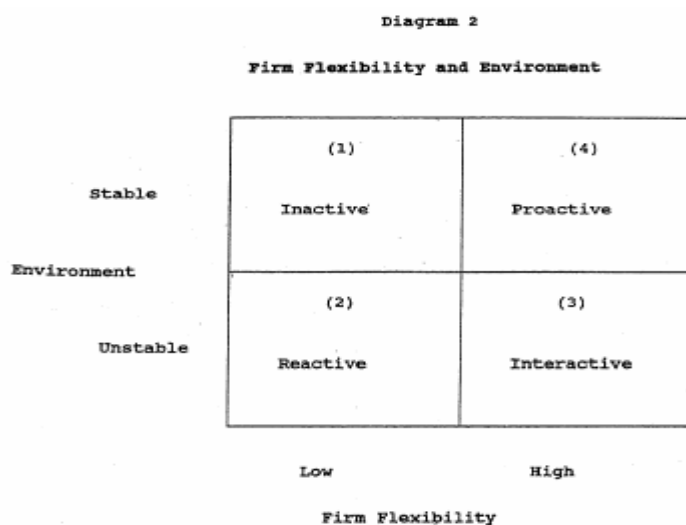


strengths to effectively face competition from large enterprises operating across the spectrum.

Niche market may be based on geographical classification of target segment. Nirma washing powder became a success mainly by specialising in the lower end of the market where utility is the most important consideration of the customer. Nirma identified that detergents such as Surf were too sophisticated for rough clothes such as bed sheets and dailyware garments, and the purpose would be served by a cheap, functional detergent. By pricing its products far below conventional detergents, Nirma carved out a niche for itself. Similarly, a fast growth ready-made shirts manufacturer in the small scale has been successful mainly because of his specialisation in executive shirts. In this niche market, customers look for mature, sober, fashion-free, functional and price sensitive shirts.

Flexibility

Entrepreneurs should be able to change their strategies according to environmental changes in order to register fast growth. As shown in diagram 2 (adapted from Mascarenhas, 1981) a firm would have low or high flexibility, and would operate in stable or unstable environments.



We shall consider the four scenarios here.

- a) **Inactive:** If the firm's flexibility to change either in terms of product, market or technology is low and if the environment is reasonably stable, the firm is likely to get stable returns. Except under monopoly or near monopoly conditions, firms cannot expect to make rapid growth in response to growing demand under such circumstances.
- b) **Reactive:** Firms in the second quadrant also have limited flexibility, but have to operate in unstable environment: It is difficult for firms to plan and grow under such situations, and the entrepreneur will be forced to formulate strategies reacting to changes. It is advisable for entrepreneurs operating in such conditions to move out either by changing product mix or via market diversification. Although, it might involve additional investment, this option might be preferable to operating in such uncertain environments.
- c) **Interactive:** In quadrant 3 environment stability is low. Since firm flexibility is high, several small scale activities can grow and flourish. For instance, fashion garment industry is very unstable, and only dynamic firms with a lot of flexibility can survive and grow there.
- d) **Proactive:** Firms are most comfortable in quadrant 4 where they have the maximum flexibility to undertake any change in the environment or suo moto. The environment is stable here. Entrepreneurs can anticipate environmental changes clearly and formulate growth plans accordingly. Firms with strong R&D such as the solvent manufacturer can make product innovations for specialised markets and take advantage of premium pricing.



The above discussion shows the need to retain flexibility in enterprise activities from the very beginning. Success and growth of new enterprises depend on their ability to overcome their inherent weaknesses and to understand the environment and factors influencing it.

Quality-cost Link

Another strategy which is very successfully followed by several fast growth small scale enterprises is cost leadership. Nirma detergent powder and ready-made executive shirts cases mentioned earlier are examples of cost leadership in specific market segments. However, very often entrepreneurs tend to overengineer their products in the process of improving product quality. Developing high quality products is certainly a rewarding strategy under normal conditions, but will be counterproductive unless the market is ready to receive it. In other words, entrepreneurs have to find an optimum mix of quality and cost strategies.

Networking

Developing and maintaining contacts at social and formal levels is found to be extremely useful for business success. Fast growth firms do this consciously and systematically. For instance, an entrepreneur producing household plastic products (e.g. buckets) started building up contacts with dealers and users of pump-sets when he almost decided to diversify into PVC pipes. This helped him cut down lead time in developing distribution and sales arrangements. Similarly, a small scale pesticides manufacturer with long years of experience at the middle and senior levels in a multinational pesticides company could penetrate and start growing in the highly competitive pesticides market by making use of his extremely cordial contacts with industry.

Networking should emerge itself as a system to be very effective in the long run. The style and culture of the personnel would influence it. Networks can be built up for both operating and strategic purposes.

Entrepreneurs should remember that they cannot be opportunistic in developing and maintaining networks. It always has a 'quid pro quo' sense and therefore all the parties involved in a network should stand to benefit materially or emotionally.

Time

Earlier it was briefly mentioned that a fast growth entrepreneur should be able to respond to customer requests fast. In these days of increasing competition, entrepreneurs can build competitive advantage based on time, shorter the time, better it is. There are furniture makers, tailors and bakers who undertake- production and delivery at very short lead time compared to competitors. 'One hour photo' laboratories and dry cleaning shop's also belong to this category. They in fact have identified a segment of the customers who are prepared to pay premium for quick service.

To be the first in the industry and reap the market as quickly as possible can grow an enterprise fast. Since creating a new industry or market involves great uncertainties one has to be careful while entering it. An entrepreneur who ventured into fresh cut vegetables activity in one city has found the going extremely good. Initially, he sold cut vegetables to restaurants and institutional canteens and later expanded to cover household market. He had the advantage of being the first to enter the market and build business first.

15.5 STRATEGY, STRUCTURE AND SYSTEMS

Strategies on their own will not make any firm fast growth oriented. Organisation structure and systems also play significant roles in turning a strategy successful. For instance, in a rigid, bureaucratic organisation where everything is done based on written orders, strategies sensitive to time will not work.

Control systems should also be tuned to implement the strategy For instance, the success and growth of a restaurant operating in a highly competitive environment depends on the quality of items, lead time and attitude and behaviour towards customers, often more than on price. In such places, ordering and delivering systems have to be closely monitored to ensure competitiveness and resultant growth opportunities.



Control can be self-imposed also if the organisation culture is growth oriented,, open and frank. Without a highly motivated workforce it is difficult to achieve high levels of growth. Developing a growth oriented culture is not an automatic process. The entrepreneur should have clear ideas about the enterprise mission, its strategy and the organisation structure and systems. He should find a match among them, and build a team of personnel to achieve the mission. The entrepreneur should learn to delegate as much as possible to his subordinates while retaining sufficient control. The various components of an enterprise should work like a well conducted orchestra to draw synergy and make it a growth firm.

Activity 3

With respect to the enterprises you studied for Activity 2 what growth strategies would you like to suggest for each of them?

Enterprise 1

Enterprise 2

Enterprise 3

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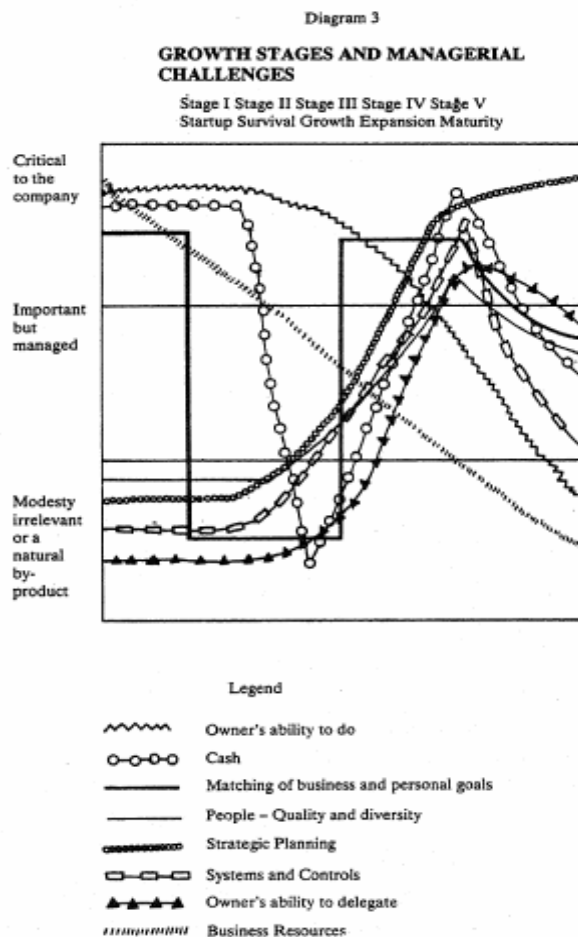
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15.6 CHANGING MANAGEMENT DEMANDS

Since the internal and external requirements of an enterprise varies at different stages in the life of an organisation, it will be useful to examine the importance of some of the factors at the five stages.





As shown in Diagram 3, the managerial challenges change from stage to stage. Although the data related to a US study of 83 small scale enterprises, most of the findings have broad applications in the Indian context. An entrepreneur strategist must be able to visualise the changing scenarios and build strategies in advance for smooth transition from one stage to another.

15.7 SUMMARY

Discussion on the stabilisation and growth strategies have shown that dynamism is fundamental to rapid organisational success. Entrepreneurs should constantly look for new ideas and change themselves as and when required. The above strategies are not mutually exclusive. They are rather illustrative, and should be combined in appropriate ways to suit any given situation.

15.8 SELF-ASSESSMENT QUESTIONS

- 1) How do management challenges differ over the stages of growth in a small enterprise? Explain with the help of an example.
- 2) Discuss the opportunities and threats that free the entrepreneur in the stabilisation free.
- 3) Describe the various stabilisation strategies that can be used entrepreneur operating a fast food restaurant in a busy metropolitan market.
- 4) If you were a ready-made garment manufacturers about to enter the competitive field of exports of apparel, what growth strategies would you adopt to ensure a comfortable pace of growth.
- 5) Describe the organisational requirements for growth orientation in a small scale enterprise.

15.9 FURTHER READINGS

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