

**Avondale Perspective:**  
Developing a profitable growth strategy in difficult economic conditions

**Avondale White Paper:**  
“A MAP to Sustainable Value Growth”

**Avondale Connections:**  
More on Avondale’s practice

## Avondale Perspective: You’ve Cut to Survive, Now Invest to Thrive

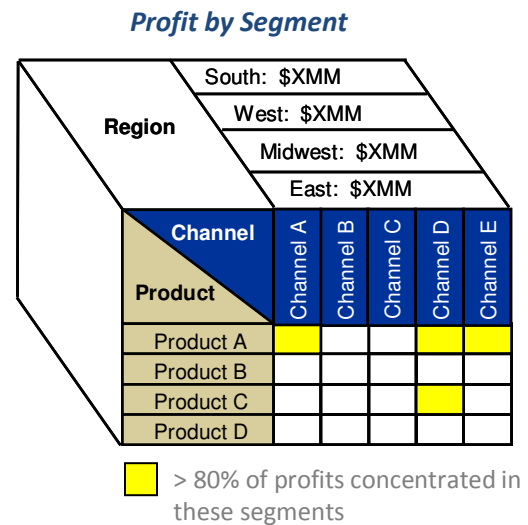
The economic crisis has taken its toll on businesses across every industry, with lower demand, reduced cash flow, layoffs, and delayed or cancelled investments adding to the pain that management teams and their employees are feeling. In many industries, the global recession is also changing the very nature of competitive advantage; strategies that proved successful a year ago in many cases are no longer relevant.

The common reaction of many companies attempting to match expenses to this lower revenue reality has been one or more rounds of across-the-board cost-cutting. The objective is clear: minimize the impact of the crisis on current cash flow or, in some cases, simply survive. While a necessary cost of doing business in a down economy, this approach often erodes both the future growth potential and competitive advantage of the business.

With perhaps the worst of the cuts behind you, now is a good time to think about positioning your company to outperform competitors when the economy recovers. To do so, you need a better understanding of which parts of the business are creating value and which are not, today and in the future.

Determining the parts of your business that are generating the most value requires a look beyond top-level metrics such as regional, national or global sales figures. A more granular analysis of business units, products, customers and geographies can unearth hidden pockets of performance, or potential performance, that warrant additional resources.

Where will the money come from? This type of analysis will also help you identify pockets of underperformance that don’t deserve the current level of investment; those dollars can be redirected to value-creating areas. (We’ve often found in our client work that as much as one-half of a business is not generating a sufficient return on investment, and cuts in those areas can create value.) Consider the experience of one of our clients, a consumer packaged goods company that was looking to improve

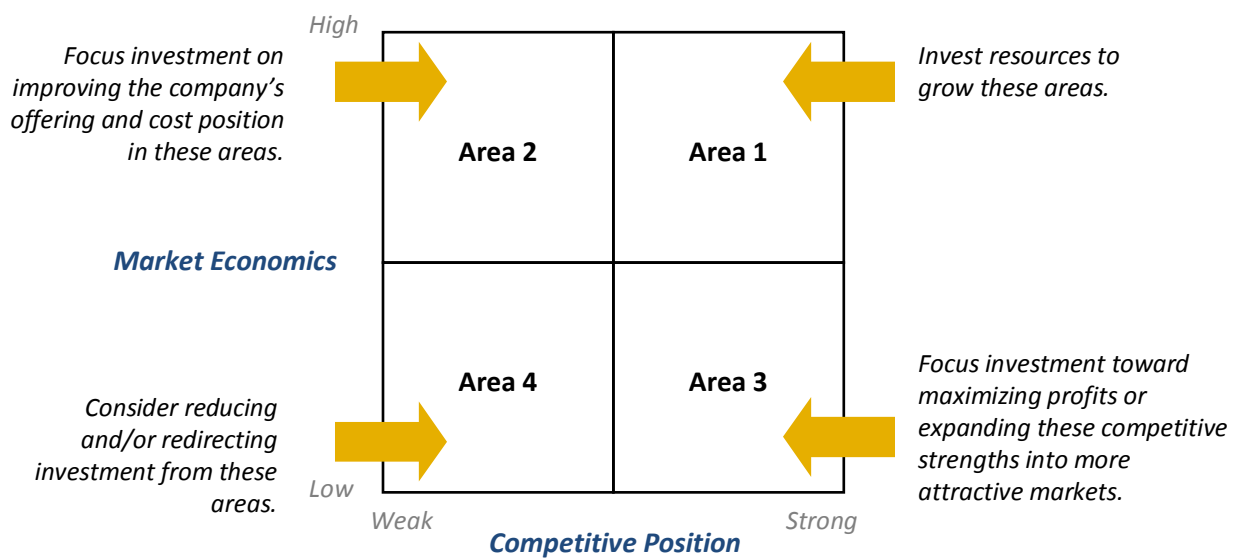


positioning against its main rival in key geographies. Sales teams had been attempting to increase share in these markets by showering retailers with additional trade investment. But a detailed analysis of product sales in these regions showed a result that was almost the inverse of their assumptions: In areas where they were losing share, increased trade investment was ineffective. In other areas, share remained stable or even grew in some instances, despite decreased investment. Additional trade investment was not doing anything to change their underlying competitive position in these geographies other than reducing overall profitability. By developing a better understanding of its investment relative to its main competitor in specific geographies, the company gained new insights around where and how to invest to improve share and profitability.

## The Value Matrix

If the recession has weakened your competitive position, you can be sure that competitors will be eager to capitalize as soon as they can devote new resources. So it's important to gain a better understanding now of the role each business can play in terms of driving future value growth. The following framework can help you determine where each business fits in your portfolio, based on the attractiveness of the market(s) – i.e., market economics - in which the business participates and your competitive position in those markets.

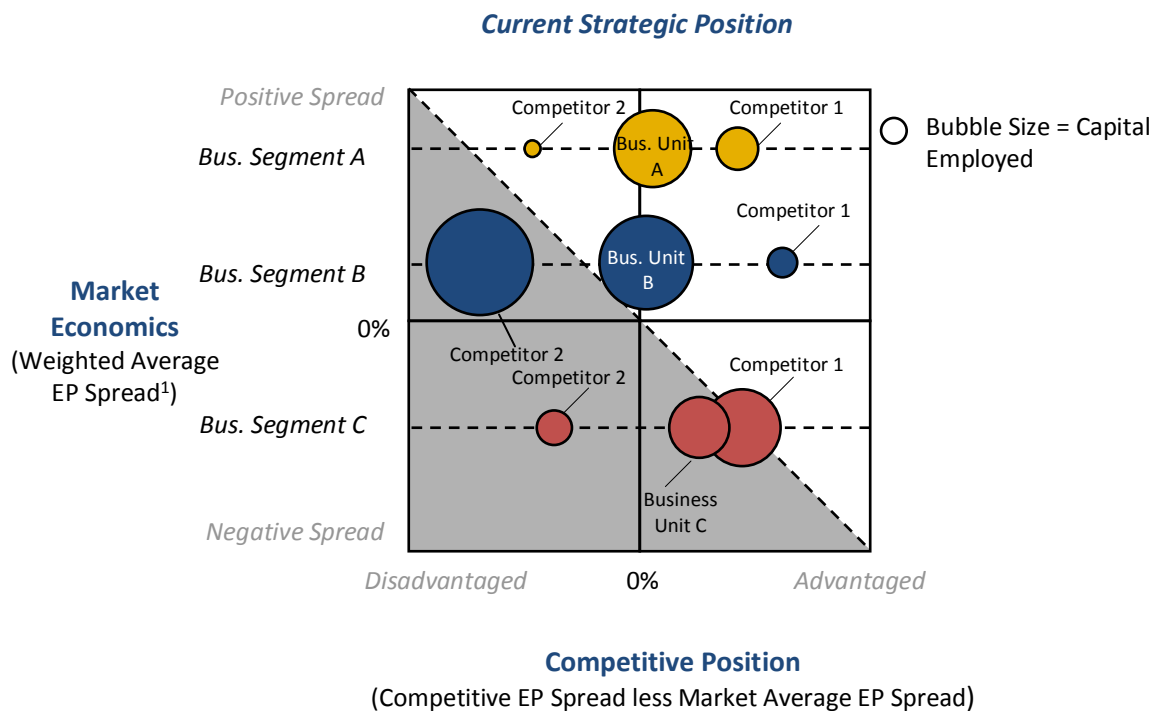
In any economic environment, your goal should be to align investment within the business to areas that are expected to reap the highest returns. The highest return on investment, of course, is likely to be found in attractive markets where you have a strong competitive position. Accurately placing your company's activities within each quadrant can provide a roadmap for investment allocation:



The criteria for determining market economics and competitive position – e.g., total profit pool, relative share of profit pool – should be developed with an independent, grounded process, so all segments can be viewed objectively and consistently. Market economics can best be summarized by the returns earned by companies who serve the market, relative to those companies’ cost of capital. Higher returns indicate a more attractive market. Similarly, your competitive position can be summarized by the difference between your profits and the average profitability of competitors.

Investment decisions should be based on current and projected future positions on the chart. Start by plotting current positions, based on an analysis of today’s market economics and competitive position. The analysis should be fact-based and comprehensive. Don’t fall into the trap of protecting business units or products that have historically performed well – in today’s environment, there should be no “sacred cows.”

Once you have a clear view of where your businesses fall, do the same analysis for competitor businesses, and plot them on the chart:



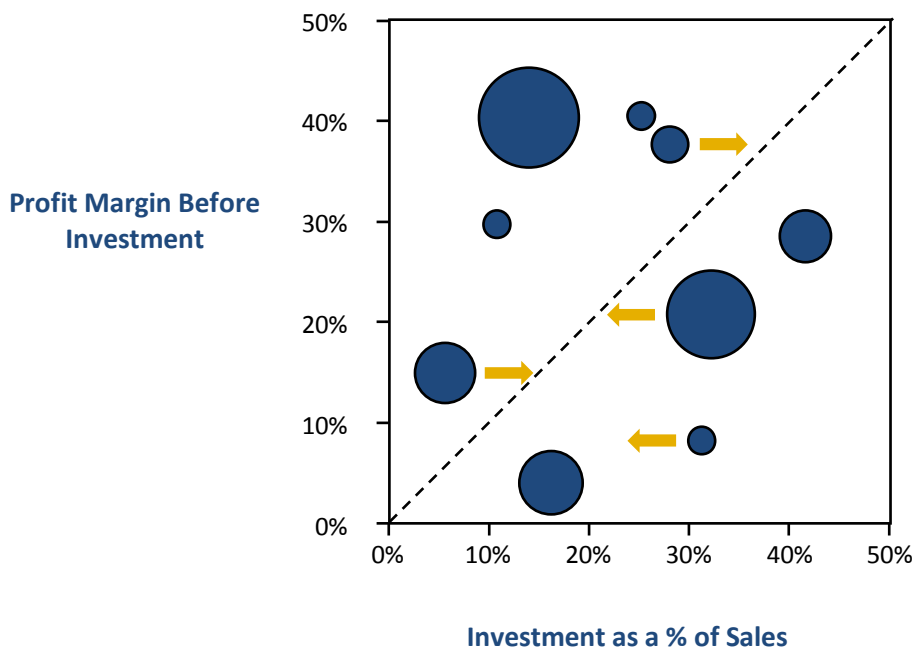
A common fact base around the market economics and competitive position of each business should make it easier to reach consensus on the best opportunities for business growth. This may require a

<sup>1</sup> EP Spread: Return on Equity (“ROE”) less Cost of Equity (“K<sub>e</sub>”),

brutally frank discussion around the implications of where businesses or products fall in the four quadrants, but once this fact base has been developed and agreed to by management, opportunities for investment typically start to jump off the page.

The first consideration should involve whether to shift resources from the lower-left segment (serving unattractive markets with uncompetitive products) to the upper-right quadrant (strong products in attractive markets). Next, additional analysis should be performed to unearth the drivers of increased value for activities in the remaining two quadrants (strong products in unattractive markets and weak products in attractive markets). In these cases, it's helpful to understand where investments within these businesses are aligned or misaligned with likely returns on investment, as depicted in the chart below:

**Alignment of Marketing/Resource Investment Across Class of Trade**



It's important to conduct this exercise within various views of the business. If the company is organized by geographical units, plotting bubbles for each region is an obvious choice. But you also want to map the business by customer segments, product segments, routes-to-market, or any other segmentation that provides further insight into how investment is allocated across the business. Agreeing to the position of each piece of the business within the value matrix will lead you to valuable (and actionable) insights, including:

- The role of each business or product segment in the portfolio – both current and future state
- A view of the current profit opportunity within the business – i.e., what opportunities are you leaving on the table? Where is the low-hanging fruit that can provide a short-term lift?
- A robust understanding of the levers needed to change the long-term growth trajectory of the business

This type of value segment analysis can have an impact both on current performance and on future strategic position. For this reason, the analysis is valuable in any economic climate – not just when business is tight.

## Avondale White Paper *A MAP to Sustainable Value Growth*

Avondale Consulting has released a new white paper, “A MAP to Sustainable Value Growth.” The paper describes the three foundations of the Objective Value Management (OVM) framework: mindset, alignment, and process, or MAP. These foundations are at the core of successful and sustainable value growth strategies and are essential to helping companies move away from “stock-price management” toward a focus on long-term value growth. The author, Greg Stoklosa, a Principal at Avondale Consulting, developed the OVM framework based on his prior experience as chief financial officer of a major commercial printing company, as well as his experience helping other companies implement OVM practices to drive long-term value growth.

Excerpts from “A MAP to Sustainable Value Growth”:

*Leadership teams can't simply eliminate quarterly earnings guidance...they must replace it with an alternate framework and set of metrics that provide transparency and accountability to shareholders, the board, customers, and employees. We have developed such a framework, called Objective Value Management (OVM), to help companies re-focus their efforts on achieving long-term, sustainable value growth...*

*... OVM focuses on growing total value through an optimal mix of current performance and building future expectations. Future expectations are based on key value drivers for the business, and measured and tracked through financial and non-financial metrics that are leading indicators of future performance. These metrics are given as much or more weight as current financial performance in evaluating execution. In this way, the leadership team holds itself accountable for achieving current performance goals and for building expectations for future performance as a means to grow total value.*

**To read the full white paper, please visit [www.avondaleconsulting.com/whitepapers](http://www.avondaleconsulting.com/whitepapers)**

## About Avondale

Avondale Consulting advises corporations on how to create **profitable growth** and increase the financial value of their business. Avondale works with senior management teams across a range of industries to develop practical and actionable solutions that sustain long-term value creation.

## Contact Avondale

For more information on Avondale Consulting, contact one of the Principals or visit [www.avondaleconsulting.com](http://www.avondaleconsulting.com).

Karl Stark	<a href="mailto:karl.stark@avondaleconsulting.com">karl.stark@avondaleconsulting.com</a>	• Phone: (312) 953-7372
Greg Stoklosa	<a href="mailto:gregory.stoklosa@avondaleconsulting.com">gregory.stoklosa@avondaleconsulting.com</a>	• Phone: (847) 778-7102
Bill Stewart	<a href="mailto:bill.stewart@avondaleconsulting.com">bill.stewart@avondaleconsulting.com</a>	• Phone: (858) 231-2353