Five Strategies for Rapid Firm Growth and How to Implement Them

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Analysis of 45 rapidly growing, profitable firms reveals five strategies: (1) product proliferation, (2) mass market development, (3) increasing value to select customers, (4) distribution innovation, and (5) acquisition and consolidation. These five strategies are not restricted to high-growth industries and arise when firms exploit market disequilibrium to their advantage. The profitable growth strategies are based on multiple, reinforcing sources of scale, scope, and time-based advantages. The study details the steps needed to implement each growth strategy and potential pitfalls to avoid. Copyright © 2002 John Wiley & Sons, Ltd.

INTRODUCTION

Through restructuring and reengineering, large diverse companies have been advised to define and focus on their core business (Zook and Allen, 2001), from which they now face the challenge of how to grow profitably. Shareholders, managers, and employees are increasingly striving for sustainable, profitable growth, often without success. Sustaining growth requires a strategy for increasing revenue without sacrificing earnings or customer satisfaction. Achieving sustainable profitable corporate growth may be the toughest managerial act in America (Harvard Management Update, 1996). From 1983 to 1993, only about 30% of Fortune 1000 companies managed 10% annual compound growth in revenues (Gertz and Baptista, 1995). The vast majority of new businesses start small and stay that way (Bhide, 1999).

Numerous firms enter growth situations based on incorrect premises only to endure long painful losses and ultimately embarrassing, costly, and sometimes fatal exits (Aaker and Day, 1986). Gucci, for example, pursued growth by extending its prestigious brand name in luxury leather goods to other products such as watches, eyeglasses, and perfumes, and by expanding its channels of distribution, increasing the top line but eroding the bottom line and alienating its most profitable high-end image conscious consumers (Gadiesh and Gilbert, 1998).

To develop new insights on growth, this study examines the strategies of 45 firms that have sustained profitable growth. It identifies five common strategies that lead to sustainable growth, the contexts in which they occur, their sources of advantage, how to implement each strategy, and their potential pitfalls.

RESEARCH QUESTIONS

Researchers have examined the organizational traits of rapidly growing firms and their environment (Covin et al., 1990; Freeser and Willard, 1990; Fombrun and Wally, 1989; Jarillo, 1989; McCann, 1991; Sexton and Seale, 1997; Eisenhardt and Schoonhoven, 1990). Structural and management challenges need to be overcome in order to grow (Hambrick and Crozier, 1985). Firms need to resolve a specific crisis tied to their stage of development in order to transition to the