

Developing growth strategies to become a market leader



STRATEGY

Introduction

A business will not become the market leader by chance. It takes careful planning to build an organisation that outperforms its competitors. In business, these plans are called strategies. A business strategy can take many forms. For IMI, a leading engineering business, its strategies focus on growing the business within the niche markets in which it operates. A niche market is a relatively small and often highly specialised segment of a market.

IMI is a global engineering business focused on the precise control and movement of fluids in critical applications. IMI has five platform businesses which use its expertise in valve and fluid engineering in different markets:

- Fluid Power – specialists in motion and fluid control technologies, custom engineered for critical applications requiring precision, speed and reliability.
- Severe Service – highly engineered valves and controls that enable vital industrial and energy production processes to operate safely, cleanly and more efficiently.
- Indoor Climate – experts in hydronic distribution systems and room temperature control which deliver energy efficient indoor climate systems.
- Beverage Dispense – specialists in innovative beverage cooling and dispense solutions that contribute to increased sales and lower operating costs.
- Merchandising – specialists in bespoke point of sale merchandising solutions which improve retailer profitability by driving up sales.

IMI is a member of the FTSE 100, a list of the 100 largest UK organisations listed on the London Stock Exchange. The Group manufactures products in over 20 countries and has over 15,000 employees worldwide. Its employees focus on creating unique solutions to specific problems. In fact, around 70% of IMI's products are engineered to order. Its employees' global knowledge and skills are a key factor in its ability to differentiate its

offering within a range of different markets including oil and gas, nuclear power and the food and drink industry. IMI's products help its sector-leading customers to become more competitive whilst enhancing responsible business practice in their specific markets, for example, by improving efficiency, increasing output or reducing energy usage. IMI calls this Engineering Advantage.

IMI's growth strategies are set to help achieve its mission and goal. A company's mission communicates the organisation's core purpose to its stakeholders. IMI's mission is: *'To become the most admired engineering solutions company of our size anywhere in the world.'* A company's goal outlines what it hopes to achieve in the long-term. IMI's goal is: *'To become the world's leading engineering company in each of the global niche markets we serve and to be admired for our innovation, applications expertise and global service.'* An organisation's mission and goal provide a framework in which the strategies are created. This case study shows how IMI uses a variety of strategies to grow each platform of its business to work towards achieving its mission and goal.

Growth as a business strategy

The purpose of a business strategy is to create a competitive advantage in the market place. Strategies are the means by which an organisation can achieve its goals. IMI's strategies are therefore focused on growing each of its five business platforms to become the world-leading engineering company in these niche markets.

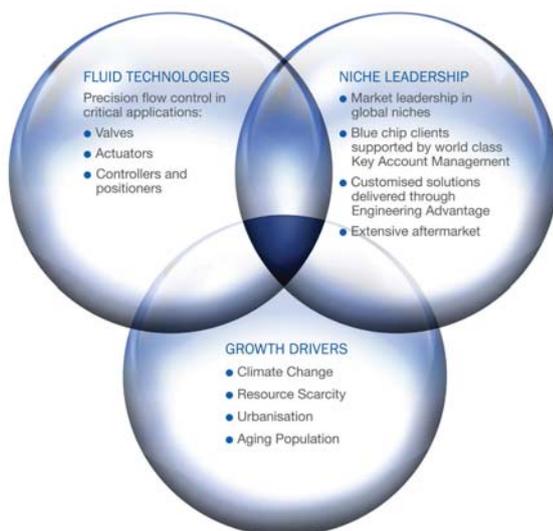


Each business is different. Strategies are heavily influenced by the business' values. Values outline its behaviours, often referred to as 'the way we do things around here.' An organisation's values underpin all decision making and play a vital role in setting strategies and goals. IMI's values are part of its unique selling proposition (USP). A USP is something the company offers that its competitors do not. For IMI, this code of conduct is referred to as 'The IMI Way'. This states that an IMI employee: *'Pursues excellence and delivers results; innovates and provides value to our customers and acts with integrity.'* This is true for IMI employees around the world and demonstrates their commitment to doing the right thing for the business and for its customers.

Every business is affected by factors in its external environment. Monitoring and assessing the likely impacts of these external factors will highlight challenges and opportunities for the business. IMI has identified four global long-term trends which are shaping the future direction of the business. These growth drivers are:

1. Climate change – providing green technology solutions to improve energy efficiency and environmental impact.
2. Resource scarcity – innovative products to manage energy, water and waste more efficiently.
3. Urbanisation – the increasing movement of populations to cities adds pressure in areas such as improving the operation and maintenance of older buildings, enhancing building design to improve efficiency and providing better transport links.
4. Ageing population – delivering niche products to support healthy lifestyles.

Growth is a common goal, also known as a business objective, for many organisations. A business may pursue a growth strategy to increase its market share, improve efficiencies through economies of scale or to increase revenue.

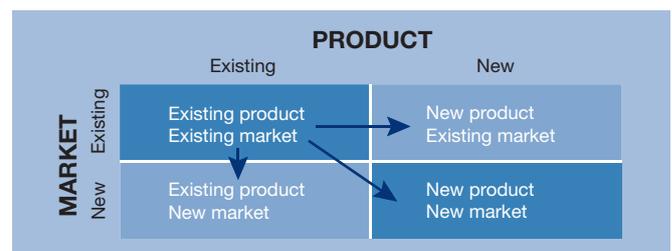


IMI's growth strategy focuses on the markets where it is, or has the potential to become, the market leader. It uses innovation and its expertise in the four growth drivers to enhance its position in these markets. The benefit to IMI is that the business achieves higher margins (the amount of profit once costs have been subtracted), greater product differentiation and improved customer intimacy. IMI's objective is to focus on these markets over the next 5 years. This objective drives all of IMI's investment decisions and supports its goal to grow to become market leader in its niche markets.

Organic growth

One method used to grow a business is organic growth, sometimes called internal growth. Organic growth occurs when a business grows by selling more products or services. Ansoff's matrix outlines four ways this can be achieved:

- market penetration – selling more of its products to existing customers
- market development – selling its products to a wider market, either at home or abroad
- product development – increasing the product portfolio by selling new products or services to existing markets
- diversification – selling new products or services to new markets.



Organic growth is a long-term strategy. It is a lower risk growth strategy than inorganic growth as it is building on the company's strengths to increase sales. For IMI, growth of each of its five platform businesses is driven by:

- innovation
- new product development
- market development – seeking opportunities in a variety of emerging markets.

IMI seeks to maximise organic growth opportunities by focusing its innovative new products on the four growth drivers. IMI's strategy for growth has seen increased investment in new product development, as well as sales, to increase exposure to the higher growth emerging markets. For example, IMI's Severe Service division has experienced growth in emerging economies such as Argentina where its market-leading control valve technology gained new customers in the oil and gas industry.



Using IMI's technology, Pan American Energy eliminated high vibration and poor fluid control in its water injection control valves and pumps, avoiding expensive shutdowns and maintenance costs.

In recent years climate change has been a key growth driver for IMI's Severe Service division in a variety of markets. For example, in Spain IMI worked on 'Andasol 1', Europe's first trough commercial power plant. The plant supplies environmentally-friendly solar electricity for up to 200,000 people using steam powered turbines. IMI engineered valves to control the flow of steam, eliminate the emission of greenhouse gases and improve efficiency.

New product development also drives IMI's organic growth in all divisions. For example, IMI's Beverage Dispense division engineered a premium juice dispensing unit for McDonalds. Focusing on the ageing population and climate change growth drivers, this new product has the capacity to double the existing number of juice brands McDonalds can offer, giving customers greater choice of healthy beverages. The unit helped McDonalds' sustainability goals by using hydrocarbon to reduce negative impact on the environment and LED lighting to reduce power consumption.

IMI's organic growth, in each of the five platform businesses, is a result of carefully planned strategies and the expertise of its global workforce to deliver innovative solutions to the challenges facing its customers.

Inorganic growth

Inorganic, or external, growth is another method used to grow a business. The main sources of inorganic growth come from mergers and acquisitions with other businesses. A merger is when two companies join together to create a new company. An acquisition is where one company buys another company which it then controls.

Although a much faster method of growth than organic methods, inorganic growth carries greater risks. It is often very expensive to buy a business, even if the business being acquired is in financial trouble. Acquisitions must be carefully planned to ensure the venture is viable. If acquiring a business that strays away from the organisation's core competencies it must ensure it has the skills and knowledge required to run the business profitably. When analysing an acquisition, it is essential to recognise that a business is not just purchasing tangible items such as employees, stock and buildings, but also non-tangible ones such as reputation, intellectual property, liabilities and goodwill. Once an acquisition has been finalised the process of integration must be carefully managed so that a smooth transition takes place without a loss of value in the acquired company.

Carefully planned acquisitions are key to IMI's growth strategy. IMI focuses its acquisitions on companies that are complementary to its existing businesses and will help it achieve its mission and goal. This involves acquiring companies that are leaders in their respective fields to strengthen IMI's market share. Two examples are IMI's Severe Services platform acquisition of German industrial valve maker Zimmermann & Jansen in 2010 and the leading Italian engineering business Remosa in 2012. These enabled IMI to become the leader in custom engineered valve and control solutions for critical in-plant processes. Both companies operated in power generation and oil and gas, industries in which IMI already had a wealth of expertise. They also gave IMI a strong presence in emerging markets, including South America and Asia, where Remosa, for example, was already highly active.





Another example of inorganic growth is IMI's acquisition of InterAtiva in 2012, a Brazilian isolation valve business serving various end markets including oil and gas and water treatment. This acquisition also supports IMI's market development strategy. InterAtiva had strong customer relationships in Brazil so IMI has been able to increase its customer base and presence in this core emerging market.

Measuring growth

Organisations can measure growth in a variety of ways. For example, growth can be measured against revenue, profit, market share or the number of geographical markets in which a company operates. Comparisons can then be made between this data and data from previous years to determine if its aims and objectives have been achieved. IMI measures growth against its key growth strategies and its goal to be the global leader in each of its niche markets. IMI monitors its global competitors to determine whether it is the market leader.

IMI sets growth objectives at a Group level as well as for each of its divisions. The annual results enable IMI to measure the percentage of growth in each division, both organic and inorganic growth, to ensure objectives have been achieved. For example, in 2012, IMI's organic and reported revenues rose 3% to £2.19 billion. IMI's Severe Service revenues, boosted by the Remosa and InterAtiva acquisitions, were up 20%. The results also demonstrated that IMI achieved strong growth in emerging markets with a 24% increase in revenue in 2012 and organic growth up 14%. This information is used by IMI senior managers to determine growth trends and to set future growth strategies and objectives.

Alignment of these objectives is key for IMI to meet its target to invest the percentage of revenue from new product development, and to achieve a corresponding increase in investment in research and development.

Conclusion

IMI's growth strategy is driven by market and product developments that focus on its long-term goals. Using the global expertise of its workforce, IMI is able to develop innovative solutions for the challenges faced by its customers. These challenges are driven by IMI's growth drivers; climate change, resource scarcity, urbanisation and ageing population.

IMI has a 5 year map of its new product developments. This map allows the company to identify opportunities to increase market share as well as market development opportunities in sectors where the company already has knowledge and expertise. Alongside organic growth, IMI's well targeted acquisitions strategy aids the achievement of its goal to be the market leader in the niche markets in which it operates.



1. Describe one method of organic growth pursued by IMI. (2 marks)
2. Explain the difference between organic and inorganic growth. (4 marks)
3. Analyse the benefits and drawbacks of IMI's recent acquisitions. (6 marks)
4. Evaluate the effectiveness of IMI's growth strategy. (8 marks)