AN APPROPRIATE GROWTH STRATEGY IS THE KEY TO HIHGER CAPITALIZATION OF A COMPANY

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Abstract

Regardless of a company's development stage, market capitalization is an essential component in terms of finding investment capital. It is easier for stable large-cap companies to cope with competition, including on highly concentrated markets, and their stock seems more attractive to investors. While small-cap companies are forced to devote most of their resources to capture the market and investor confidence in this case is much lower. An important driver of any company's growth is the ability of a CEO to build effective communication among his or her subordinates, take responsibility for decision-making and respond to risks in a timely manner. Moreover, employee engagement, manifested in sharing the values and goals of the company, plays a special role at all stages of its development.

Keywords

Company's growth, capitalization, EBITDA, profitability optimization, team engagement, leadership, development strategy.

FAST GROWTH FACTOR AS A KEY TO INCREASING COMPANY'S VALUE

One of the key missions of any company is the return on investment capital that meets the expectations of shareholders. Therefore, it is extremely important that the company's activities should be aimed not only at making profit, but raising its value as well.

EBITDA is an indicator of a company's profit that demonstrates its financial standing, market share, competitiveness and represents a convenient way to evaluate the strategic state of the business.

Accordingly, a company's growth or the potential are the most important indicators of its performance which ultimately determines its market capitalization.

There are many different ways to optimize a company's profitability, including cutting costs, optimizing business processes, reducing payroll, etc. However, most of these methods have a very limited effect, since they are implemented exclusively at the micro level of the enterprise.

The growth prospects of an enterprise at the macro level are much higher, since the impact of the environment is unlimited. Interaction with the environment contributes to a faster rise in the company's value.

The main factors contributing to the company's growth at the macro level are the following:

1. Organically:
• total market growth;
• market share increases;
• effective innovation programs;
• increase in sales, etc.
2. Inorganically:
• M&A agendas.

In general, we can conclude that ensuring the company's growth through its investment capital is the most appropriate way to raise its capitalization.

DIFFERENCE BETWEEN MANAGEMENT AND LEADERSHIP

There is a lot of literature devoted to management and leadership. For instance, according to the Harvard Business Review [1], there are several basic definitions to distinguish one concept from the other:

1. Value calculation/value creation.

Human resource management is not so much about creating value as it is about assessing that value. For instance, if you ask a diamond cutter to report every 15 minutes how many diamonds he has cut, you will only distract him and reduce the value of his work.

2. Field of power/field of influence.

Just as managers have subordinates, leaders have followers. While the manager's actions are aimed at ensuring that the subordinate should carry out his instructions, the manager-leader's actions are aimed at ensuring that one should be willing to listen to him.

3. People management/process management.

The management system is built around the control and coordination of personnel work to achieve the goal as fast as possible. Leadership, however, refers to the ability to influence, motivate and enable one to contribute to the success of the company.

It is worth adding that leadership does not imply climbing to the top of the pyramid, this concept extends, as it should, to all levels of the company, from the CEO to the manager of the production department or sales department, or any other mid-level employee.

The CEO of the company is responsible for developing and implementing a business strategy aimed at achieving success. Therefore, it is important that a company should strike a balance between management and leadership to meet consumer expectations in different market conditions.

IMPACT OF EMPLOYEE ENGAGEMENT IN THE COMPANY'S ACTIVITIES

Over the past 20-25 years, companies have started to attach increasing importance to employee engagement which ensures better performance of the enterprise. Gallup method is used to determine the degree of staff engagement [2]. This method is a survey among employees, the results of which are directly related to indicators such as productivity, profitability and staff turnover.

Moreover, it is worth considering 5 key Delloite strategies that make it possible to measure the degree of engagement:

- meaningful work;
- hands on management;
- positive work environment;
- growth opportunity;
- trust in the manager [3].

Indeed, team engagement in company's processes is a tangible advantage, particularly on highly competitive markets.

BUSINESS CASES

Before moving on to this section, it is worth considering that the figures presented are real and documented based on three main parameters: the company's market share, revenue and profitability (EBITDA).

CASE 1. NESTLÉ ICE CREAM COMPANY MEXICO

From 1994 to 1999 Mexico experienced the most severe economic crisis in the country's history (macro level): currency devaluation exceeded 100%, interest rates reached almost 150%, inflation was equal to more than 500%, unemployment reached 25%, record number of home redemption rights losses.

The company's standing was far from sound (micro level): low quality/basic product range, average consumer price per unit was $0.25, company's turnover made up $30 million, EBITDA was $3 million, the company's market share was about 17%, limited distribution. Despite the company's difficult situation it had a highly motivated team of employees at all levels.

The company needed a clearly formulated innovation strategy, since the objectives were very ambitious:

- rise in revenue to $100 million;
- EBITDA growth to $10 million or more;
- increase in market share (compared to Unilever about 38%).

The new strategy developed by the company was based on a deep SWOT analysis:

1. Updating the entire product range with new high-quality products.
2. Increasing the average consumer price per unit to $1.
3. Launching an umbrella brand and creating competitive independent innovative brands.
4. Raising employee engagement in the operation of the enterprise (up

to 80%).

5. Product promotion through new marketing strategies (mass media).

6. Expanding distribution through an exclusive distribution network.

7. Launch of new and improved products in a key sales channel of a competitor.

Figure 1 shows that between 1994 and 1999 the company's revenue increased by $110 million, exceeding its target by 40%. EBITDA exceeded expectations by 200%, and market share is almost in line with the company's target.

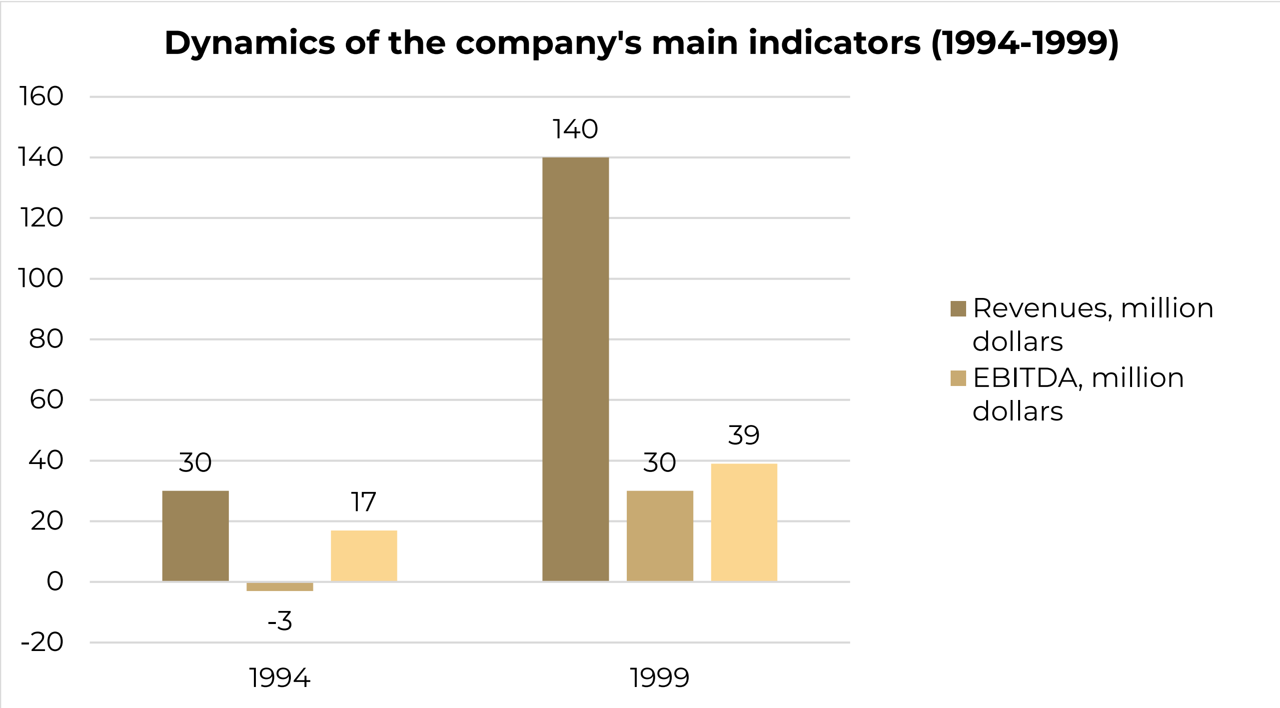

Fig. 1. Dynamics of the company's main indicators (1994-1999).

Source: compiled by the author.

This effect was the result of the synergy of several strategies. However, it is worth considering that none of them would have led to such a result without a high level of employee engagement in operations.

CASE 2. NESTLÉ OCEANIA COMPANY

In 2004-2008, the economic situation in the states of Oceania was developing quite well: a mature market economy, low unemployment and inflation, a highly competitive and dynamically developing business environment, a large number of multinational companies, high market concentration, effective demand.

The company was the largest F&B firm in Oceania, with a professional team and a high-performance structure, valued at AUD 295 million at the time with revenue of $2 billion. The company developed a large number of famous cult brands, but not innovative ones.

The main goal was to accelerate the company's growth while maintaining high profit. The difficulty of its implementation was associated with excessively high market concentration (2 clients = 80% of sales, 3 = 92% of Nestle sales), a large number of rivals and an overly mature target audience.

At the same time, the company's key objectives for the period from 2004 to 2007 were the following:

• revenue growth to AUD 3 billion (combination of organic and inorganic growth);

• rise in EBITDA to $360 million;

• strengthening leadership positions.

The set objectives underpinned the development of a special strategy which included the introduction of innovations at all stages of product development, special focus on the nutritional value of products, increasing the share of marketing investments, raising investments in the development of new promising products, increasing investments in personnel, thanks to which the employee engagement was 89%, implementation of a program to optimize production and stimulate company's growth.

The implementation of this strategy contributed to a rise in revenue to AUD 2.9 billion, which is close to the target, as well as an increase in EBITDA to AUD 340 million. Even though the figures fell short of the expectations, the company's overall growth was almost 50%. It is worth emphasizing that in this case the team's engagement also played an important role.

CASE 3. NESTLÉ PROFESSIONAL THE AMERICAS COMPANY

In 2008-2011, the main trend among American consumers was that out-of-home F&B spending made up 51%, the highest in the world. After the financial crisis hit in 2008, sales in the industry fell by 30%. The difficult economic situation contributed to higher competition on the market, increased price pressure and higher unemployment, and a large amount of unused capacity in the industry caused lower product prices.

The company's weaknesses were the lack of customer focus as such, weak growth (the company's revenue was $1.2 billion), low EBITDA (approximately 6%), a complete lack of innovation, most of the range included standard products with low added value, and most strategies were presented in a "conservative" format without considering the specifics of American public catering culture.

The company's development strategy in a difficult economic environment was as follows:

• creating additional growth opportunities regardless of limited market share;

• maintaining the required level of products with high added value;

• scaling operations through a combination of organic and inorganic growth;

• customer focus, including the creation of a Customer Innovation Center to attract potential customers;

• developing training and motivation programs for employees;

• expanding the customer base by creating new sales channels, opening additional outlets, including convenience stores and supermarkets;

This strategy ensured an increase in revenue to $2.2 billion and EBITDA to 6.6%.

Despite all the difficulties that a company may face, a responsible and competent CEO, together with his team, can always find new opportunities for growth, identify promising strategies and ensure the flawless operation of the company.

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