Expansion Strategies for Gourmet Sweet Treat Stores

How to identify, evaluate and implement revenue growth strategies

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Introduction

Growth and expansion are imperative for most small businesses. There are many ways that a business can grow, such as tapping into new delivery channels, new markets, expanding to new territories, or providing new services to the existing customer, etc. Businesses need to develop a streamlined game plan to execute their long-term goals. It is critical for businesses to consider all the following factors: financial and human resources, capabilities of the management team, and weigh the different growth options to prosper into a successful venture.

Understanding the Customers

Whether it’s expansion into new territories or in existing markets; identifying customer personas can be a helpful tool in designing a go-to-market strategy. Buyer personas are a tool that can help the businesses understand its customers better including their specific needs, challenges, and interests. Buyer personas are a fictional generalized representation of the ideal customer of the business. This insight into the customers makes it easy for businesses to tailor the content, product, and service to the specific needs and behavior of a certain customer segment. It can also be leveraged to run highly effective marketing campaigns with personalized content to the target audience. Customer personas can be created by referring to market research and collecting insights from the actual customer base through surveys and interviews. Careful consideration must be given while designing the customer interview/survey question. Also, the primary objective while designing these interview questions should be the extraction of valuable insights with limited time from the customers. Social media data analytics can also be leveraged to understand the buyer persona better.

Understanding the Business

The starting point of any growth strategy of a business is to understand the business. This includes understanding the business model, channels of delivery, marketing campaigns, cost of operation, and revenue generation strategies. It is also essential to have a clear idea about the value proposition that is offered by the company to its customers, as it aids in distinguishing the business amongst its competitors. Understanding the logistics of the business including its capabilities and limitations will help small businesses frame an achievable goal for the growth of the venture. Another integral part of any business considering expansion is to understand its customers. The businesses should ask - what customer segment consists of their existing customers, what are the drivers of their business, what are the challenges and needs of their customers, which customer segment are not being serviced currently.

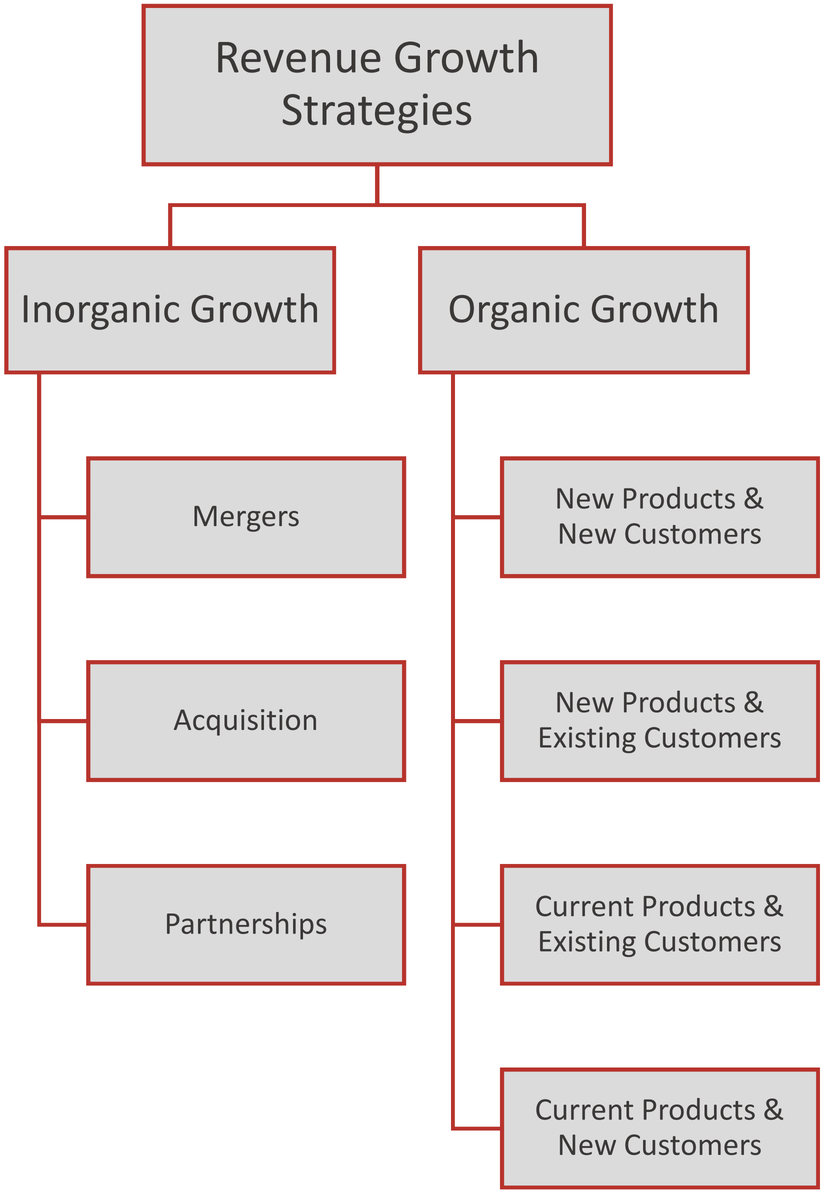
Revenue Growth Strategies

A structured approach can be undertaken to identify and evaluate growth strategies to increase revenue of a business. Prior to developing revenue growth strategies, it is imperative that sufficient primary and secondary research be conducted on the target customer segment, direct competitors and the company's own business model, values and goals. By doing so, relevant insight into industry trends, customer personas and company's direction of expansion can be used to determine and evaluate growth strategies.

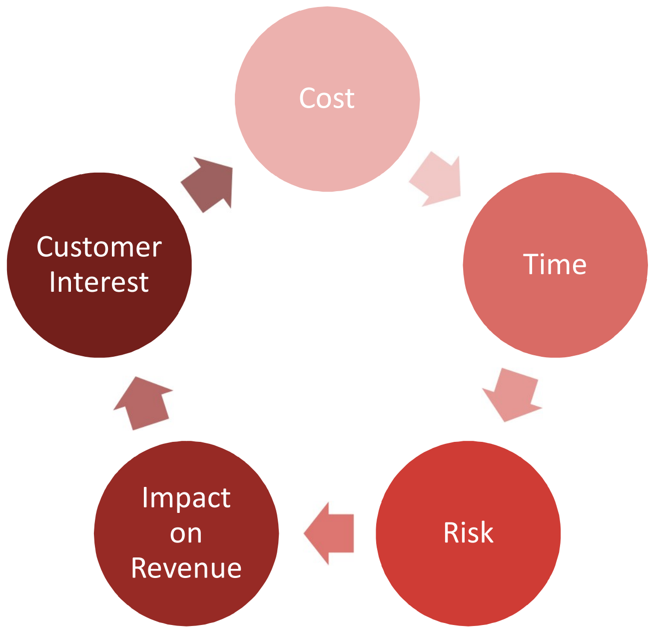
Identifying and Filtering Strategies

When identifying growth strategies, it is important to understand the various streams of increasing revenue and narrow down the list of strategies to focus on the ones that best align with the company's goals and values. As an overview, there are primarily two ways to achieve growth in a business: Organic and Inorganic. Organic growth refers to internal growth through increasing output and enhancing sales. Inorganic growth is growth related to external activities, such as mergers and acquisitions. Both approaches can be further broken down into specific streams as outlined in the figure on the right.

Particular to gourmet sweet treat shops, organic growth is broken down into focusing on existing/new customers and existing/new products. Each of these combinations carry different business objectives and growth strategies that can effectively increase revenue. For example, if a company were to focus on current products and existing customers, revenue growth strategies can be tailored towards customer retention rates (transaction frequency), increasing transaction sizes (amount of purchase) or raising prices. Conversely, strategies for new products and new customers will require extensive research into industry trends and customer personas to identify new products that appeal to a new customer segment. By targeting a specific stream of revenue growth, a business can better develop strategies that align with their company's goals as well as customer satisfaction.



Once a revenue stream is identified and a list of strategies are compiled, a filtering process can be carried out to reduce the number of options available for further evaluation. This filtering process includes metrics that are used to compare all strategies that were established. For reference, the image below details 5 metrics used to filter out strategies in a gourmet donut shop focused on increasing revenue for existing customers with current products.



Complexity Versus Impact Matrix

A final evaluation matrix can be conducted on the remaining strategies after the filtering process. This evaluation matrix depicts the relationship between the complexity and impact of each strategy. Complexity refers to the resources required to implement the strategies (cost, time, people, and risk), whereas impact refers to the potential customer interest and revenue growth. Understanding where these strategies place in this complexity impact matrix can help businesses realize quick wins and major projects and select the most appropriate one based on the company's risk tolerance, resource capacity and business goals.

Recommendations

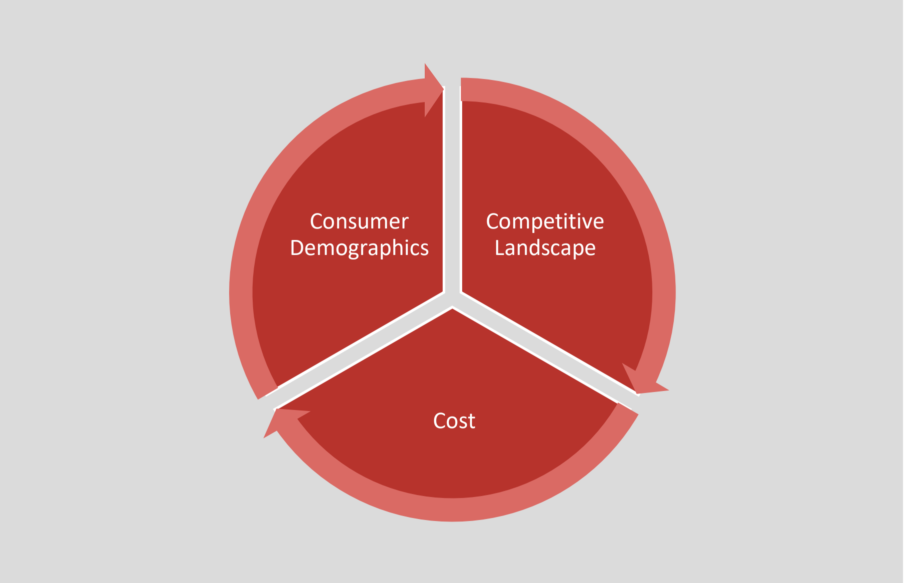
This structured methodology in identifying, filtering and evaluating revenue growth strategies allows companies to follow a holistic approach to improve and expand their business. From understanding their customer base and competitor landscape to developing revenue growth streams and business objectives. Hence, as stated before, extensive research shall be conducted prior to developing revenue growth strategies, as the effectiveness and outcome of these strategies are reliant on their knowledge of the current industry, target customer segment and company goals and values.

Market Research & Analysis

In order to evaluate the impact and the complexity of any of the listed revenue growth strategies or evaluating a new market for entry, the business must conduct thorough market research in order to accurately assess each strategy and market conditions.

While primary research methods such as interviews or surveys can be effective as it can arrive at specific answers that are tailored to the business needs, it requires a considerable amount of managerial time and financial resources. It is thus best that the business turn first to cost effective secondary research.

Sources of information for secondary market research can be both external and internal. External sources include government data such as census and commercial reports available through organizations like IBISWorld, Gartner or Pew Research Center. Internal sources of market information are “hidden in plain sight”; these include existing data from past marketing campaigns or monthly point of sale data.



Key Information that is important in evaluating new market or revenue stream can be broken down into following:

- **Consumer Demographics:** age, gender, income, education, employment status
- **Competitive Landscape:** product offering, target consumer segment, price, marketing strategy
- **Cost:** raw materials, rent, payroll, tax

Other considerations include potential management time and resources that may be deviated, easiness of finding suppliers, cultural/strategic fit with the business and so on.

The above, by no means, is a comprehensive list required to locate the white space in entering a new market either by physical means or by new product offering. However, such secondary research can provide a valuable understanding of the unknown market or revenue stream yet to be explored.

Physical Expansion

In order to gage where and how an enterprise can expand its physical footprint by acquiring or building a new location, it is essential to first understand the business' goal in expanding. Whether it be to evaluate and enter a new market, to consolidate one's presence within an existing market by gaining market shares, to rival a competitor or simply to grow the bottom line. The discussion needs to be had regarding why an expansion is attractive or necessary. This sort of measure is costly in terms of time, capital and other resources; hence the process needs to be thoroughly thought out.

In prospecting expansion locations, an evaluation matrix can be designed in order to grade potential targets. The first step in this process is to define the different criteria to which every potential target will be compared. These criteria can be as broad or narrow as necessary – it is expected that some idiosyncratic factors may be taken into consideration for each business, as all companies have different goals and operations. However, for most cafes, bakeries or other small-to-medium gourmet foods stores, some specific evaluation criteria will be essential to consider.

First of all, the locations demographic makeup should be considered. A commerce's success may be contingent on the population density of a certain area or by the amount of foot traffic that the area commands. The overlap between the target area's demographic composition and the business' target audience shall also be evaluated. Second, the area's competitive landscape should be considered – said area should be graded on the density of direct and indirect competitors to the expanding business. Additionally, rent prices need to be researched. Rent can play a huge role in a location's profitability; the average storefront retail space rent price, the stability of said price and the availability of space shall be measured in the matrix. Lastly, some logistical component needs to be taken into account, gaging the target area's overall brand alignment, its accessibility and its potential to be integrated within the current existing distribution network.

All of these criteria need to be associated with a tangible, measurable and comparable scale. What one business may consider to be a proper annual square foot rental price may not be the same as for another business – said scale should be designed in conjunction with the expanding business' head management. Ideally, the information necessary to attribute a score to each of these criteria for all of the potential locations should be available via secondary research rather than primary research.

Once the criteria have been defined and the scale has been built to measure each one of the factors, the criteria need to be attributed with a certain weight. Again, this process varies greatly from one business to another; what may prove to be vitally important to one commerce may be benign to another; then again, the attribution of weight to the criteria should be done jointly with the expanding business' management – owners should have the final say on which factors matter the most in evaluating expansion prospects. Once the criteria, scale and weights have been determined, the matrix can be built.

Evaluation Matrix Table Example

	Weightings	Option 1	Option 2	Option 3
Criterion 1				
Criterion 2				
Criterion 3				
Criterion 4				
Total				

There are many ways to select the locations that shall be subject to matrix grading. Usually, the expanding business will have an idea of the general area in which they want to grow; then remains the possibility of choosing locations based on general areas, neighborhoods, street corners or even precise available retail spaces. Very specific locations may lack in available resources to allocate scores via secondary research; hence, expanding businesses may elect to restrain location specificity to neighborhoods. Once criteria scores are multiplied by criteria weights and then added up, total location scores are obtained – these numbers can provide business owners with a broad, general idea of which locations are most attractive and which shouldn't be further considered.

Rather than an absolute solution, the grading matrix should provide managers with a direction – an idea of where the business should further investigate to scope out a potential expansion location. As a rule of thumb, the top 3 or 4 locations should be deemed as good prospects and should be further considered; the next steps should involve primary research, contacting local real estate agents and furthering one's understanding of the area's recent business entries and exits. The matrix should be used for as many locations as necessary for the business owners to find a feasible and attractive target, but subsequent research will be necessary regardless of the outcome of the matrix' grading.