Executive Summary

Global trends for high growth companies that truly 'get growth'

EPICOR

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Introduction

Despite the world facing dramatic economic and political changes, today's technology is bringing more opportunities for business growth on a global scale than ever before. Technology brings people together, allows businesses to land and expand into new geographic locations with minimum resources, and makes the product development lifecycle more responsive to consumer demand than ever before.

Yet, despite these opportunities, the business community's knowledge of how, where and why businesses are growing on a global scale is limited. Growth forecasts and analysis, such as that from The Conference Board[1] in 2016, tend to be focused on GDP performance.

Global growth survey

In light of this, Epicor Software Corporation, a global provider of industry-specific enterprise software to promote business growth, has launched a new survey. The study, which is due to be repeated on an annual basis, will make it possible to ***monitor attitudes to business growth, as well as profit and revenue growth trends and priorities on a global level, comparing business performance across multiple regions***.

Epicor commissioned Morar Consulting to conduct the research, which surveyed 2,450 business decision makers and employees in businesses in 12 countries including the USA, Canada, Mexico, the UK, Germany, France, Sweden, China, India, Singapore, Hong Kong and Australia. The study surveyed businesses in the manufacturing, distribution, retail and lumber sectors[2].

Among other things, the study questioned businesses about their growth in six specific areas, in order to paint a well-rounded picture of the state of business growth globally.

The following growth rate indicators were used to measure and compare growth:

- Sales/turnover growth
- Product range growth
- Profit growth
- Exports/overseas growth
- Headcount/workforce growth
- Geographic coverage growth

The research paints a picture of the distribution of high growth companies around the world, revealing trends about the strategies they use to get set for growth in today's dynamic business environment. The results are striking, and one of the key findings is that two-thirds (64%) of businesses across the globe managed to grow their profits in the last year, leaving one-in-three businesses struggling.

[1] https://www.conference-board.org/data/globaloutlook/
[2] The research was conducted at the end of 2016.

Are these businesses pursuing unprofitable revenue, or perhaps they are cleverly building market share with a plan for profit growth later?

Ultimately, growth means different things to different businesses, which is why the study has focused on six growth indicators, as outlined above.

Based on the trends unearthed by the study, the following summary highlights ***four key observations about global business growth*** and provides ***advice on how businesses can address the challenges they face as they grow***.

Divergent strategies for growth

Analysis of the research shows that individual company growth is, as expected, dependent on a wide range of factors. In attempting to define the trends that impact high growth companies the most, we need to assess the key growth indicators for these types of businesses.

Business strategies and priorities differ according to where companies are positioned in their growth journey. A successful growth strategy is comprised of many building blocks, with profitable growth the pinnacle. So, while failure to grow profits is often an indicator of a weaker business, it can also be indicative of a business on an aggressive growth journey. Investments made in the development and marketing of new products to gain market share would definitely have an impact on short-term profit. However, if the product is well accepted the business will see revenue growth that will have a positive impact on profitable earnings.

Likewise, of the two thirds of businesses who grew profits last year, many are in the position of enjoying market share in established markets. Becoming a market leader is an obvious growth goal for any business, but this should never be the end of the growth strategy. As fast as market share is gained, it can topple again.

The mobile phone market between 2007 and 2012 is the perfect example of why a market leader must never rest on its laurels. In the third quarter of 2007, Finnish mobile phone manufacturer, Nokia, boasted a smartphone market share of 48.7%. By the third quarter of 2012 the company's market share had slipped to just 3.5 percent[3] following the introduction of the first iPhone.

It's not just Nokia that has been the victim of market changes. Kodak's reign as leader in the photography market was upset following the advent of digital photography. The company's revenues peaked at nearly $16 billion in 1996, with profits of $2.5 billion in 1999. However, by 2011 its revenues were around $6.2 billion and by 2012 it was forced to file for chapter 11 bankruptcy protection because it had been too slow to change from its traditional chemical film based business model.[4]

However, profit should not be the only measurement for successful growth. Here, it is sensible to cite Amazon, which has experienced an explosion in its revenue since 2004 but whose net profit margins remained fairly stagnant for years, amidst aggressive expansion plans.[5] Indeed, one of the prominent findings from the research is the vastly different growth rates among businesses in different parts of the world, depending on where businesses are in their development cycle. This is an important consideration when deciding on expansion overseas.

India vs. Singapore

80% of businesses report profit growth in India. That's compared to Singapore where just 34% of businesses grew profits. With such disparity between the countries it's likely that macro-economic indicators are playing an

[3] https://www.statista.com/statistics/263438/market-share-held-by-nokia-smartphones-since-2007/
[4] http://www.economist.com/node/21542796
[5] http://www.ibtimes.com/amazon-nearly-20-years-business-it-still-doesnt-make-money-investors-dont-seem-care-1513368

important role in boosting—or rather holding back—profit growth. These countries have had largely different GDP experiences in the last 12 months, something that may be having a direct impact on business growth. India, for example, demonstrated a high GDP growth rate of 6.8 in 2016[6] but Singapore has been experiencing its weakest GDP growth rate in seven years[7]. Another factor could be the policy of the Singapore central bank, the Monetary Authority of Singapore, to use currency instead of interest rates to manage the economy, which has resulted in a weakened Singapore dollar. It is the only major economy in the world to use the exchange rate, guiding the Singapore dollar higher or lower.

US vs. Germany

The picture for ***sales and turnover growth*** is rather different to that of profit. Around 65% of businesses in the US have experienced growth in their sales/turnover in the last 12 months. That's compared to almost three-quarters (71%) of US businesses that experienced profit growth.

Businesses in Germany, meanwhile, could be accused of pursuing sales at the jeopardy of profits. While 65% of businesses in Germany experienced growth in their sales/turnover in the last 12 months, only 58% managed to grow their profits. Overall, of the businesses that experienced very low profit growth in the last 12 months, a higher than average third (32%) said they have been driven by sales/turnover compared to just over a quarter (27%) of high growth businesses.

Kathy Crusco, chief operating and financial officer at Epicor comments, "It is concerning to see that some businesses have struggled to grow profits in the last year because all companies ultimately depend on the bottom line. If a business is growing its profits, it is in a position to invest—by opening a new location, taking on more staff or investing in technology. All of which will help to fuel further growth in the future. 'Grow getter' businesses understand what growth looks like for their organisation—they invest where it counts and monitor the metrics to see if they are getting the results they expected, whether its market share, new products or average sales price."

[6] https://www.conference-board.org/data/globaloutlook/
[7] http://www.tradingeconomics.com/articles/10142016003633.htm

Is it really a small world after all?

With technology making it easier than ever before to communicate and provide services across different time zones, there is an expectation that businesses should be grasping the opportunity to expand into new regions and markets rapidly.

However, the survey shows that it ***only tends to be the high growth businesses that are significantly expanding operations overseas***. Of the businesses questioned, 64% of those experiencing very high growth were also experiencing significant growth overseas (compared to an average 15% overall).

Businesses in Mexico, China and India are the most likely to be growing significantly in terms of geographic reach and overseas sales. These developing economies look to mature economies as potential markets. In what appears to be a 'chicken or the egg' scenario, these countries also have faster growing businesses that are more likely to be investing in technology to fuel further growth.

The survey indicated that IT investment is enabling business growth in Mexico, China and India. For example, around three-quarters (74%) of Chinese firms cited IT investment as important, compared to a global figure of 54%.

Crusco comments, "Because of the rapid rate of technology development, business systems are becoming increasingly more intuitive, mobile and accessible. This makes it easier for staff to use systems, and for businesses to grow their workforces rapidly. For younger firms, perhaps operating in emerging markets, modern technology also offers a chance to be more agile than competitors in developed markets, which may have older software applications to deal with.

Particularly for the manufacturing sector, enterprise resource planning (ERP) systems that integrate core business processes, automate repetitive tasks and enable regulatory and statutory compliance, provide businesses with the opportunity to 'land and expand' in new markets without having to make the same high levels of infrastructure investment that was required in the past."

Adding more feathers to your tail

The study shows that ***businesses in the US, UK, Canada, Mexico, China and India were the most likely to grow their product ranges*** in the last 12 months. ***Businesses in Hong Kong and Singapore were, on the other hand, the least likely to achieve this***, with only 46% and 45% in these countries respectively growing their product ranges, compared to a 61% figure across the globe.

Businesses in Hong Kong and Singapore were also among the least likely to feel optimistic about their future prospects. In the study these companies awarded themselves an average 'optimism' score of 6.3 (Hong Kong) and 6.4 (Singapore) compared to a global average of 7.2. Businesses in the US and the UK exhibited above average optimism, scoring 7.4 (US) and 7.3 (UK).

Optimism can be affected by many macro-economic factors that are outside of the control of a business. However, these results do suggest that optimistic companies are more likely to invest in building their product range, whereas businesses that feel less positive about their prospects are unlikely to risk adding yet more feathers to their tail.

Crusco comments, "Expanding product ranges is often the result of understanding where the market is headed, and where a business needs to look for its next generation of customers. In today's 'I want it now' world of high demand, those that can adapt and bring new innovations to their customer base quickly are understandably feeling more optimistic about the future. Particularly in the manufacturing sector, those businesses that have the ability to be agile, and offer personalization or custom manufacturing to their customers, are gaining a competitive edge."

Feet on the ground

Our research shows us that despite sales and turnover generally increasing across the globe (65% of businesses grew their sales/turnover in the last 12 months), only around half (48%) of the businesses around the globe are meeting this increase in productivity with a larger workforce.

Businesses in Hong Kong, Singapore, Germany, France and Sweden are the least likely to be expanding their workforces, according to the research.

Grow-getters in India, Mexico and China however, are growing their workforces rapidly, despite the fact that they are also investing in technologies for automation and efficiency. Despite technological advances, a skilled workforce is expected to still remain important for growth, particularly in emerging markets. According to McKinsey, by 2025 almost half of the world's biggest companies will be based in emerging markets, where part of the attraction is the low cost skilled labor in these regions[8].

As this trend continues, grow-getter companies may increasingly have to compete for skilled labor in their home markets. Technology investments made now may pave the way for future efficiencies, but these businesses may still find that labor costs will increase in the future. These adjustments in the growth landscape will continue to be tracked by this research on an annual basis.

Crusco comments, "There may be many reasons for not expanding a business's workforce—for example, some may have found that they do not need to do this to grow. By investing in technology that automates processes, it is possible for businesses to achieve more output with the same amount of labor as before. Partnering with external organizations to supply key services or build distributor or sales channels can likewise result in growth, without the necessary increase in headcount which may otherwise have been required.

With any form of business growth there is an increase in the pressure placed on systems, processes and people. So, the key is to get the balance right between having the right skills in place, and the right technology in place to support the workforce as a business develops."

[8] http://www.mckinsey.com/global-themes/urbanization/urban-world-the-shifting-global-business-landscape

Becoming a business that 'gets' growth

Although the figures tell us that many of the world's businesses do not, and are not, getting growth, there are some 'Grow Getters' out there too.

With ***emerging economies,*** such as India and Mexico, scoring higher than developed economies in many aspects of the survey, businesses in these regions have experienced a huge growth drive in the last 12 months. Businesses in these countries are taking advantage of the emerging economies in which they operate, combined with low cost locations, labor, and inward investment from other countries.

Indeed, this cocktail of circumstances has led to these businesses outpacing those in other countries in many aspects of growth measured by the study. ***China***, by comparison, has experienced a slowdown in the pace of its growth, perhaps due to a reduction in investment from overseas, competition for skilled labor and the growth of its own local market.

Crusco concludes, "Business leaders around the world can learn a lot from businesses in India and Mexico, in order to improve their own prospects. In the last 12 months the 'grow getter' businesses in these regions have taken advantage of macro-economic factors, such as low cost skilled labor and a healthy GDP.

However, they have also demonstrated a strong inclination to invest in technology to empower their workforces, drive efficiencies and increase agility. They use technology to expand into new markets and locations swiftly, without having to invest in high labor costs, and they have the processes in place to adapt their product ranges to match consumer demand. In the study around three-quarters (74%) of Chinese firms, for example, cited IT investment as important, compared to a global figure of 54%.

"Whilst macro-economic factors can often not be avoided, getting bogged down in legacy systems can. This study builds a resounding business case for investment in IT systems that support and enable business growth and help businesses navigate economic and political challenges as they arise. As an ERP provider, this is something that Epicor has long been passionate about. With intelligent, next-generation enterprise solutions in place, it becomes possible for businesses to be more confident in delivering their growth strategies".

Top ten characteristics of Grow Getters

As we've seen from the results in the survey, high-growth companies understand what it takes to get set for growth in today's dynamic business environment. At Epicor, we call these companies and their employees, 'Grow Getters'.

Grow Getters know what growth looks like for their business and have the vision and drive to act on it. They invest where it counts and have systems and processes that leverage modern technology to give them the essential visibility and agility they need to act for growth.

Find out what it means to be a high growth business and discover the top ten characteristics that set Grow Getters apart from their competitors at www.epicor.com/high-growth.

About Epicor

Epicor Software Corporation drives business growth. We provide flexible, industry-specific software that is designed around the needs of our manufacturing, distribution, retail, and service industry customers. More than 40 years of experience with our customers' unique business processes and operational requirements is built into every solution—in the cloud, hosted, or on premises. With a deep understanding of your industry, Epicor solutions spur growth while managing complexity. The result is powerful solutions that free your resources so you can grow your business. For more information, connect with Epicor or visit www.epicor.com.

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