

PROFITABLE GROWTH *strategy*

7 PROVEN BEST PRACTICES
from German companies

Thomas Michael Hogg

Copyright © 2020 by

TMH CONSULTING & INVESTMENT GROUP

THOMAS MICHAEL HOGG

All rights reserved.

Book Cover Design: Adriana Longoria

Publisher: tredition GmbH, Halenreihe 40-44, 22359 Hamburg, Germany

ISBN

978-3-347-11781-5 (Paperback)

978-3-347-11782-2 (Hardcover)

978-3-347-11783-9 (eBook)

Published by tredition. Published in the USA. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, without the prior written permission of the publisher, except for the use of brief quotations in a book review and noncommercial uses permitted by copyright law. Disclaimer: There are no guarantees. Neither the publisher nor author shall be liable for the level of success readers may experience by following strategies contained in this book. You should consult with TMH Consulting where appropriate for individual situations.

Dedication:
To God, my wonderful wife, children and family

CONTENTS

INTRODUCTION	8
1. 8020 Focus and No distraction	13
CEO challenge / 16x Pareto Principle / Case Studies	
2. It is all about quality	27
Quality programme on footballs / TÜV / Case Studies	
3. Lead a niche	43
Würth – A benchmark company / Case Studies	
4. Innovation at its best	57
Nowitzki fade away jump / German "Erfindergeist" led By Chancellor Merkel / Hannover Messe / Case Studies	
5. Leave the country	71
Geographical footprint / Tips for international market penetration / Case Studies	
6. Invest, capture and save money	83
Trust is good, but control is better / Profitable Growth zone / Case Studies	
7. Plan, plan, plan	95
A strategic plan / Campo Bahia / Case Studies	
WHAT GERMANS STILL NEED TO IMPROVE	108
THE COVID-19 SCENARIO	113
EXECUTIVE SUMMARY	119
- PROFITABLE GROWTH AUTO ANALYSIS & PLAN	123
- POSTS FOR PROFITABLE GROWTH	126
- WHY PROFITABLE GROWTH IS IMPORTANT	129
- MY LESSONS LEARNED AT ADIDAS	130
- ABOUT THE AUTHOR	139
- ABOUT ProfitableGrowthStrategy.com	147

"Thomas is an excellent strategic planning consultant. His methodology to achieve established objectives is exponential."

Gladiomar Hernandez, Founder & CEO of Hacsys

"Through my experience driving innovation at some of the world's leading innovation companies, I have come to the realization that success of any company or venture is determined by the focus of its strategy and quality of its execution. Thomas Michael Hogg has produced an excellent framework rooted in this principle based on his work with a particular focus on German companies."

**Gunjan Bhow, Former Executive at Disney, Amazon, and Microsoft
Global Chief Digital Officer at Walgreens Boots Alliance**

"This book is a compass for business leaders in uncertain times. The German industry has distinguished itself for its long-term vision and innovation, concepts that are holistically and brilliantly addressed in this publication. Its goal of guiding companies to a profitable level with healthy finances and growth is successfully described in these pages."

Bernd Rohde, CEO of Hannover Fairs Mexico

"The world's leading economies consist of a wide-ranging source of financially successful companies. The book carries insightful lessons for small and medium-sized companies about the importance of growth and competitiveness."

Lucero Alvarez, Bloomberg TV / El Financiero

"TMH Consulting stands for achieving profitable growth always in an ethical way. This book resumes the way of working of Thomas and his team. Our company improved financially and gained significant market share that made us overcome the crisis."

Rene Elizondo, CEO of Robertson Industries

"This book is very practical and business savvy with human sense. Thomas is supersharp to provide customer and company value both B2B and B2C. A must-read for all SME CEOs and Entrepreneurs who want to learn more about the German specific culture of doing business successfully."

Marcus Koch, Investor, Former Managing Director Redblue

INTRODUCTION

The day to day of a Business owner, CEO or Top Manager gets currently really turbulent and stressful. Delivering constantly to stakeholders or achieving a yearly budget is highly complex, especially in times of crisis. You have to regain and repeat success. You have to outperform over and over again.

In the midst of severe financial pressure and a volatile global economy many companies and managers fail to achieve (high) annual profitable growth.

They struggle with both strategy decision-making and strategy execution.

The number of mistakes made and the lack of resources (time and money) allocated to a well-planned and realistic strategy have been one of my essential takeaways on why many enterprises fail.

In 2005, I was one of the happiest persons in the world when I got the opportunity to work for adidas, the global sporting goods giant and world market leader for football (soccer) products. Working day by day with my favourite sport brand one year before the FIFA World Cup 2006 in Germany seemed like a dream come true. I experienced working for and with highly competitive professionals that had the goal to exceed customer needs and quality standards. Furthermore, the company and top management achieved sustainable business results with double-digit growth, especially in emerging countries. At the time, I met Carlos Maza, adidas Mexico Marketing Director, who was boosting sales through a well-defined market penetration strategy and marketing-mix. It was then that I profoundly understood how certain companies grow profitably with a sound strategic plan and execution.

While working as a consultant for PepsiCo, Johnson Controls, Campbell's Soup and several German companies later in my career it was amazing to see how certain decision makers drove and led the growth path of their companies. As always, one learns from the good role models.

In my 20 years of market experience I have seen clear patterns, notably of German but also of other international mid-sized companies, that succeeded on a global scale improving their financial indicators year by year.

This book aims to help CEOs, Directors and Entrepreneurs to focus on certain concepts that will definitely enhance the financial results of your business achieving both solid top- and bottom-line growth.

Therefore, we designed at TMH Consulting a unique **7-step methodology** that surely is going to improve your business results:



© TMH 7-step Profitable Growth Strategy Methodology

Chapter 1 emphasizes on defining and executing on key clients, priorities, people, projects, and tasks bringing you 16x more results. Specific secrets about the quality from German companies is explained in Chapter 2. The target market definition serving a specific segment building a loyal “tribe” is detailed in Chapter 3. Chapter 4 addresses the importance on R&D launching functional products. Chapter 5 gives advice to penetrate international markets with your products and/or services. How to enter the

profitable growth zone is covered in detail in Chapter 6. A well-developed plan, a common German habit, will conclude the process to create a more holistic and financially successful business model (Chapter 7).

What are the **benefits** of reading this business masterclass book and putting into practice the 7-step Profitable Growth competencies?

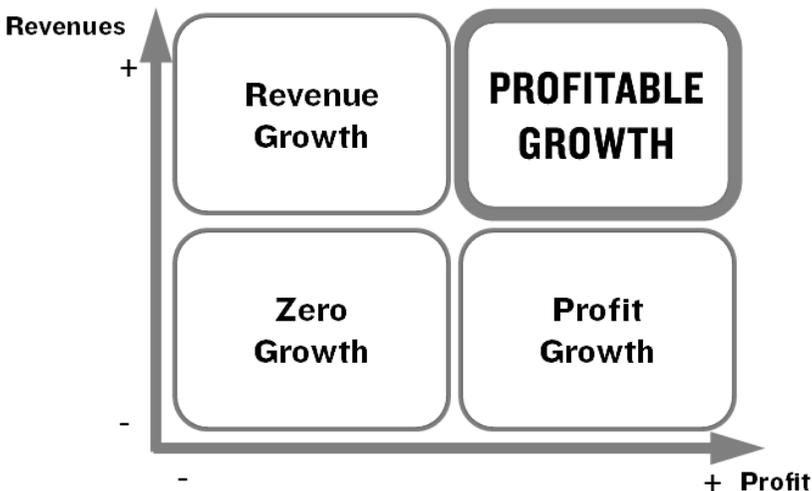
- You will develop critical skills for strategic planning
- You will gain profound understanding of sales and profit drivers
- Receiving clarity for decision making regarding your 2-years growth plan
- Acquisition of new strategy roadmap and execution practices, also to withstand crisis situations
- Gaining insights on how to reach the highest potential of your company or strategic business unit with a sound business mindset
- Reducing stress and uncertainty concerning daily performance pressure
- Improving your ability to achieve financial results

The “TMH Profitable Growth Strategy” book covers elementary tactical and strategic planning, sales & marketing, finance, and management concepts from a completely new and holistic perspective. With this knowledge, you will be able to plan to grow your company above the industry profitability level.

For the past 20 years, my consultant colleagues and I have observed what is working out and what is not. Addressing the Profitable Growth dilemma and delivering business results is our passion, as we know the CEOs are often very lonely and desperate to find the right track to success.

This book is based on what is happening in the real business world and about the challenges company leaders face on a daily basis. A practical approach to bring a company to the next level was the motivator to write this book. This is why, we document the knowledge gained to guide your profitable growth path.

The goal: Entering the profitable growth zone.



Enjoy reading about profitable growth solutions.

PART I

8020 Focus and No distraction

1 - 8020 Focus and No distraction

Doing a successful and result-oriented job is not as easy as it seems. In 1999, I was stunned by the productivity level and focus of my work colleague at a bank in the South of Germany. Mrs. Müller, a trusted and long-time employee in that bank, was scanning and double checking all high-income transfer receipts. I noticed two aspects at the same time, there were many zeros on each receipt and there were only a few receipts scanned compared to the amount of numerous boxes of thousands of documents. I was confronted the first time with the 8020 concept. All of the high and important transfers were taken into account whereas the majority of transfers weren't included by Mrs. Müller. She only focused on the most important transfers. But as a matter of fact the real lessons learned from her was her focus on time and to deliver her tasks each day in 8 hours because she had a 40 hours week. Every day she performed and there was zero distraction to do what she had to do on her 8 hour-workday. She was delivering concentrated value by simply doing what she was supposed to do.

Sounds like a normal working performance. But, there is one common mistake I see day by day in the numerous offices I visit.

**Employees are very often
“just not” doing what they
are supposed to do.**

And even worse, their boss, the CEO, is very often neither doing what he/she is supposed to be doing.

They are trapped in the daily business and the incoming operative problems, mails, social media and non-strategic tasks. They are busier with efficiency than with effectiveness. Doing the right things versus doing things right.

CEO challenge

The key challenge for a CEO is to manage that he/she and importantly his/her team are focusing and executing on the right things each day. And that doing the right things impact financially on profitable growth. CEOs have to define where the company will be in 2 years and not take part in each single decision which his or her managers are responsible for.

CEOs have to define the long-term vision and the fundamental business model elements (for instance closing constant deals with their key account, developing and hiring an outstanding sales team, defining a required service level or establishing a best in class business practice or process) that provide the company a competitive advantage and generate financial value.

CEOs are responsible for the strategy.

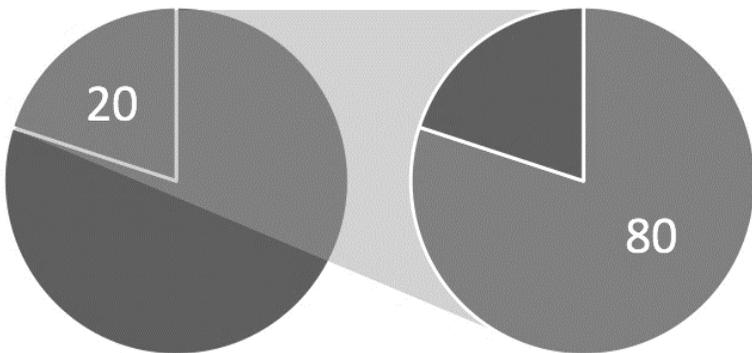
**Strategy is a synonym for
renunciation.
To focus, CEOs
have to trade off.**

How much time do you spent each day on operational issues?

How much of your time are you in the 8020 zone?

In 1906, Vilfredo Pareto noted that 20% of the population in Italy owned 80% of the property. He proposed that this ratio could be found continuously in the physical world and theorized it might indicate a natural law. For business, we know that in most cases the 80/20 rule comes true:

- 80% of work is completed by 20% of your team.
- 20% of your best clients (or customer segment) makes 80% of your sales.
- 20% of your products makes 80% of your sales.
- 20% of your best sales reps makes 80% of your sales.
- 80% of your complaints come from 20% of your customers.
- 80% of value is achieved with the first 20% of effort.
- 80% of project politics come from 20% of your stakeholders.
- 80% of problems originate with 20% of projects.
- 80% of software problems are caused by 20% of bugs.
- 80% of customers only use 20% of software features.



16x Pareto Principle

$$80 \div 20 = 4$$

$$20 \div 80 = 0.25$$

$$4 \div 0.25 = 16 \rightarrow 16x$$

The right focus with the Pareto principle to define and execute on key projects, clients, priorities, people, tasks, ... brings you **16x more results = impact = success** 🚀

I always include the 8020 principle in all strategy courses I give, as a key part to plan a successful year in order to deliver more customer + employee value and to receive more profitable growth for the company.

Through the years, I have seen that many CEOs, especially of SMEs, lack to see the BIG PICTURE; whereas the most **successful CEOs have become 8020 masters** because they lead their companies to achieve ambitious goals while focusing energetically on the most important actions to reach the higher goals, for instance:

- They visit and develop the relationship of their key clients and prospects to understand market needs and requirements.
- They talk frequently to and retain their key employees, especially key sales people.
- They are aware of disruptive trends and key challenges. Hereby, they are better prepared for an unpredictable crisis.

- They set clear goals and communicate the importance of strategy execution.
- They empower employees and show them the importance of the 8020 rule.

You need to focus perfectly on the 20% that will deliver you the 80% of the desired result. Every decision and action has to be made consciously if our time is used effectively.

These are 8 logic steps to become a successful "**profitable growth company**":

1. Set and remind the sales and EBITDA goals with the majority of your employees and quarterly reward those who achieved them.
2. Focus on high-gross margin projects, products, services and customers.
3. @CEO: Be the number 1 sales guy in the company that inspires customers to buy your products or services.
4. Hire and retain the best sales people in the industry.
5. Develop benchmark and 8020 sales & marketing channels. Very importantly embrace and dominate digital marketing because nowadays every client is digital.
6. Have strong partners and allies that help you to sell.
7. Cross-selling is key. Your adjacencies strategy has to be well defined and executed.
8. Measure and communicate your sales, profit and productivity indicators.

Now, let's have a look at one of the most admired companies in Germany. DAIMLER recently defined the following strategy focus*:

“Four future-oriented fields are set to radically change the nature of mobility: greater vehicle connectivity, advances in automated and autonomous driving, the development of digital mobility and transport services, and electric mobility.

Our objective is clear. We intend to continue to be a leading vehicle manufacturer while developing into a leading provider of mobility services. Every strategic action revolves around one thing, the customer. So also for the future, we will only be as successful as our products and services are in the market.

By means of five closely related components we are pushing forward the biggest changes in our company history - our 5C-strategy. We will be:

- **strengthening our global core business (CORE)**
- **leading in new future fields (CASE)**
- **adapting our corporate culture (CULTURE), and**
- **strengthening our divisional structure (COMPANY).**
- **The benchmark for each of these strategic components is our fifth and most important C: our CUSTOMERS.”**

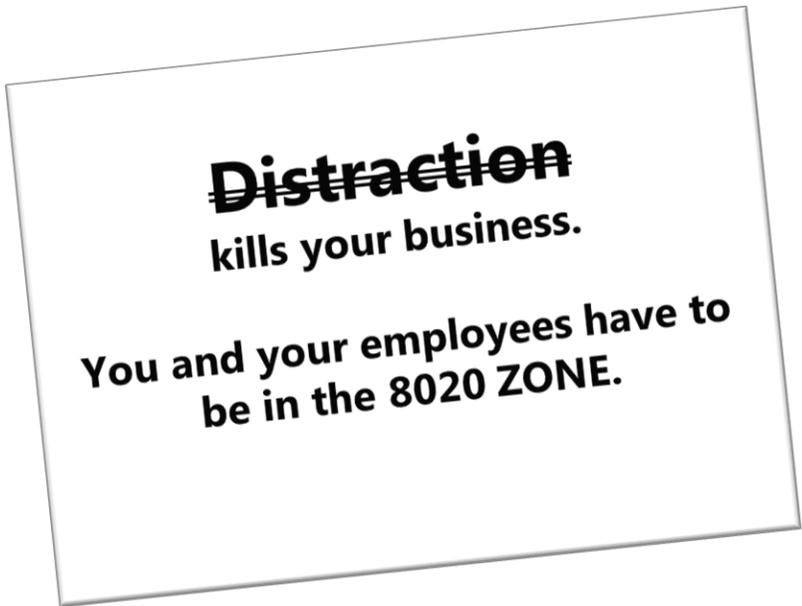
So, defending and strengthening your core business should always be the starting point of your strategy plan, unless you have proven data that your "core business" is threatened to lose more

than 40% of sales and/or market share during the next 2 years. In times of disruption this might be a possible scenario but it is rare especially for medium sized enterprises. The core business is where your company generated the most gross profit during the last 3 years and strengthening this part is essential for maintaining profitable growth for the future.

Your culture and customer strategy focus are two more common key 8020s for every business. Culture is the values that define how everyone acts in your company regarding to customers, suppliers and other stakeholders. One of the most important organizational values is frugality. Rarely found in the today's company values but so crucial for profitable growth. Frugality means the quality of being economical with money. Being prudent and wise when it comes to investment and spending is a must have 8020 value. This is what my dad taught me and how German fathers educate their coming generations. At the end of the day, performance is key and you have to focus without distraction. More importantly, hire focused people.

Business owners are responsible for hiring focused people who are better than him or her and they should not be there to execute 80% of the whole work that by the way only results in 20% of the important results.

**Never distract yourself
from the 8020 zone.**



Distraction leads to Procrastination

Please be aware that procrastination means postponing something. It is more and more common in a social world where the new generations loose so much time in consuming social media. But this time spent on video / audio may be out of the 8020 zone. So, a key challenge for Top Management in the next 5 to 10 years will be keeping people focused.

Let's have a deeper look on why people are distracted or procrastinate key responsibilities:

- Too many tasks
- Unclear goals
- Fear of change
- Committing too much
- Fear of failure
- Social media or
- Mainly lack of communication and attention.

Essentially, the communication of the 8020 zone, reasons, goals etc. is going to be more important than at any time in the business history.

Communicate the 8020 principle over and over again, especially internally since it becomes so crucial to focus the millennial and post-millennial employees. Get their attention with creative video and audio messages about the company's 8020 goals and tasks.

Furthermore, a strong focus boosts your company's competitiveness. Concentrate the limited resources where your company excels best in a profitable way. Knowing with which customers, with which products/ services, and in which geographical markets you have already succeeded, gives you a clear hint of where to focus. All the passion and time should be focused on your 8020s.

TMH Case Studies

1

- Failure: Lack of focus. There was a client who had 5000 SKUs and we showed him (analysis-wise) that only 600 products made 80% of sales.

We recommended the CEO to discontinue at least 500 very costly and unprofitable products.

We showed data over and over again. But at the end of day, the Owner did not want to “kill” one single product because these products were like his children and he did not want to “kill” them.

- Lesson learned: Products or services are not your children and you should not have an emotional over-attachment to unprofitable products and services.

Actually, thinking about the biggest failures in the business world, all failures have to do with not taking into account disruptions or that the value proposition became obsolete at some time.

When the big data shows you that certain products do not make sense financially please do consider at least to double check if and why you really should keep this product in your portfolio.

2

- Success: We showed a client data that in terms of geography 80% of his business was in the country's capital since the big companies and budgets were centralized there.

His headquarters were 600 kilometers away from the capital.

So, we showed him with data the potential sales his company might have in the next 3 years penetrating the new target market. He decided to move to the capital and among sound B2B marketing strategies we got two new "big" clients, which by the way had the biggest budgets for his products in the whole market.

**His 5-years CAGR
(Compound Annual
Growth Rate) was
+200%.**

The EBITDA growth was similar.

- Lesson learned: If you have a physical product or you have to sell your service 1 to 1 to real people you have to be close to your 8020 clients and prospects.

Being in the 8020 zone means your headquarters should be at the target market. 80% of the market value is often driven by only 20% of key players. You and your salesforce have to be close, very close, to your customer.

This was the success story for this particular client and indeed we have created many of these success stories to be near the target market.

Oftentimes, the sales representatives are not close enough with their target market clients and prospects. They are physically and emotionally absent.