

Pragmatic Growth Strategy At Power Electronics Company: An Effective, Actionable Strategy For Quadrupling Revenue And EBITDA Margins

The Challenge: Despite attempting several different strategies, PowerTech, a player in a \$1B industrial capital goods sector, was experiencing declining revenue and EBITDA in the face of aggressive competition from 2 major companies who controlled the marketplace. With revenue and EBITDA at \$24MM and 4.2%, respectively, the CEO of the holding company brought in Gotham and posed the following provocative question, “Can PowerTech become a \$100MM revenue company with an EBITDA of 20% in 4 years?”

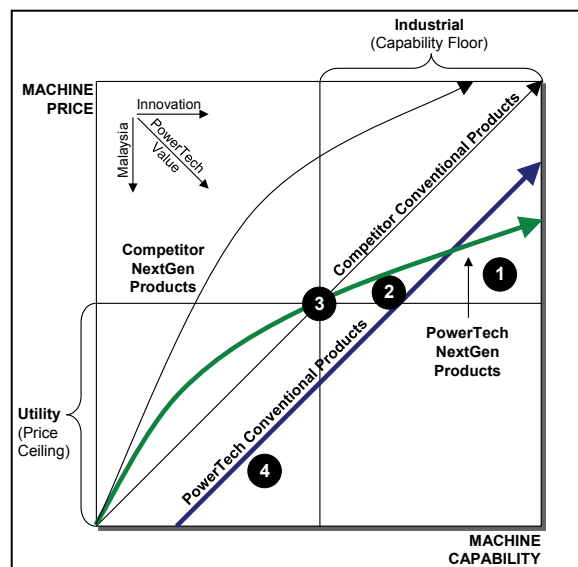
The Partnership:

Analysis: Gotham, in partnership with key client operations, sales, and marketing personnel, analyzed the market and competitors to size and segment the market and understand needs/ opportunities. Specifically, we:

- Segmented the market based on end user application/product category
- Broke and sized each segment into sub-segments based on product standards
- Mapped the competitive landscape for each sub-segment vis-à-vis client products, competitor products, product specs, application technology, client market share, price, and cost
- Interviewed key players, front-line sales personnel, and distributors, to pin down market requirements
- Analyzed current cost structure and identified key cost drivers.

From our analysis, we identified features and cost profiles for products required to compete effectively in each attractive sub-segment. This meant that PowerTech had to reduce costs by up to 50% and develop new products to create a focused product portfolio.

Beyond cost-competitive products, the team identified other key issues (brand and distribution presence) that must be addressed to turn around performance and position itself to meet aggressive growth targets. Further, while PowerTech had some advantages in next-generation technology (in sync with market shift from Conventional products), it was not fully leveraging its sister divisions in several critical ways: the Australian division's new low-cost plant in Malaysia that potentially could manufacture PowerTech's products; another division with strong product development capabilities that significantly overlapped PowerTech's technology; and two divisions with strong brand names and strong relationships with PowerTech's distribution channel.



Strategy: The team developed a 3-pronged strategy to meet PowerTech's aggressive growth targets, centered around NextGen products at Conventional prices:

1. Focus on moving the largest and growing segment (projected to grow to 56% of the total market in 4 years) to Next-Gen products (38% of the market in 4 years vs. today's 12%)
2. Create competitive advantage by leveraging unique low cost base in Malaysia to create cost-advantageous, technologically superior NextGen products and provide low-cost Conventional products to price-sensitive market
3. Capture incremental revenue from other segments by leveraging existing pockets-of-strength.

Key requirements for accomplishing this strategy were: (1) sourcing products from Malaysia; (2) a product development focus on NextGen products leveraging sister division's strengths; (3) a channel strategy to create distributor incentive; (4) branding/look update to increase shelf appeal; and (5) promotion/marketing to create “pull”.

Execution: To avoid alerting competitors prematurely, execution was planned in 2 phases. The first phase (to be completed during the first year) focused on enhancing PowerTech's costs and product portfolio via Malaysia sourcing and strengthened product development. The team developed a comprehensive business plan for migrating production and product development, including investment required by month and a pro-forma month-by-month income statement for the transition period. The board readily approved the plan, and Gotham assisted the client GM with detailed plans, project status reporting, and weekly conference calls with the geographically dispersed transition team. The second phase, launched in year 2, addressed channel strategy, product look/branding, and promotion/marketing to ensure full leveraging of the new cost advantage.

The Results: PowerTech successfully completed Phase 1 (sourcing and product development), capturing anticipated savings of \$2.7MM to grow EBITDA to 15+%. PowerTech is now well along in Phase 2 and is on track to meet revenue and EBITDA targets.