Case Study:

Doubling EBITDA in Five Years

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A rapidly growing Midwest-based manufacturer developed an ambitious goal to double EBITDA over the next five years, hypothesizing that it would be possible to achieve this objective by continuing to apply its differentiated operating process to rapidly gain share in new markets. However, it was unclear whether the remaining markets in which this approach to organic growth could be applied offered sufficient EBITDA potential – or whether it would make sense to strengthen the balance sheet and then drive growth through acquisition.

The company hired NAVSTAR to facilitate an in-person meeting involving the CEO and board (including private equity investors). We used a range of frameworks to guide the group's effort to brainstorm markets that could be entered organically and/or through acquisition – and then coached the team through a process of evaluating each opportunity against a customized set of criteria. After employing a quantitative approach to assess the relative attractiveness of each organic growth opportunity, the group concluded that only two merited in-depth research – and that successful entry into the other high-potential new markets would require an acquisition.

The most attractive organic growth opportunity had been brainstormed during our facilitated session, and there were many "unknowns" associated with it. Consequently, we conducted extensive primary and secondary research (i.e., interviews with prospects and competitors, competitor mapping, distributor mapping, other secondary research). By triangulating information found through this range of sources, we were able to size the market, estimate each major competitor's share of it, understand competitive dynamics (e.g., competitors' positioning and go-to-market strategies), clarify customer requirements, detail market prices, and assess organic growth prospects. This work revealed that:

- When the market was defined in terms of the subset of SKUs that the company could profitably offer, it was insufficiently large.
- Even these sales would not come easily, since it would be hard to differentiate against a competitor that held nearly half of the market.

For the second most attractive organic growth opportunity, we did not have sufficient information to assess how it fared against several "deal-breaking" criteria. Consequently, we scoped a first phase of research in which we focused only on these criteria – and applied the 80/20 principle to achieve a strong directional sense for whether there would be value in conducting additional analysis. Through carefully constructed conversations with only the largest distributors in the market, we obtained information on market prices, requirements, competitors, and unmet needs. This effort revealed that:

- It would be extremely difficult to meet distributors' baseline requirements while also generating an acceptable margin.
- There was no major opportunity to achieve higher margins by outperforming the competition and/or addressing unmet needs.

After eliminating these top two organic growth opportunities from consideration, it became clear that acquisition would be the best path to EBITDA growth. With this knowledge, the company:

- Avoided wasting time and money on an effort to enter unattractive markets – and unnecessarily cannibalize its core business.
- Strengthened the core business by converting prospects and improving the balance sheet (reducing debt, capex, and inventory).
- Leveraged core business strength by pursuing an acquisition in one of the markets identified through our group brainstorming effort – an acquisition that's expected to enable the firm to achieve its goal of doubling EBITDA within the original five-year timeframe.