

Pragmatic Growth Strategy For Consumer Electronic Device Provider: Developing Multi-Brand Growth Strategy In Preparation Of PE Exit

The Challenge: Our PE client, 2 years into an investment in a consumer electronic device provider, wanted to establish a clear growth strategy to position itself for a successful exit within an 18-24 month timeframe. In addition to organic growth opportunities, the company was considering a transformative add-on acquisition of one of its competitors to bolster the company's market-leading position (from 28% to 41% market share), and add a third brand to its portfolio (the company had recently acquired a "boutique" premium brand present in only 2 states). Given the high degree of state-level regulatory oversight and the significant geographic overlap between the acquisition target (present in 24 states) and the company's core brand (already present in 45 states), our client was concerned that state officials would restrict the company's ability to go to market with multiple brands. Our client asked Gotham to first establish the feasibility of a multi-brand strategy within 2 weeks in order to move forward with the acquisition and then to pin down the company's growth opportunities and develop an actionable strategic plan to set the stage for a successful exit.

Multi-Brand Growth Strategy Validation And Design: Gotham quickly developed a comprehensive market, competitive, and regulatory fact base through: (1) **160+ interviews with key stakeholders** (state officials, competitors, consumers/influencers, industry experts/participants, and key personnel for all 3 companies); (2) **in-depth research** to pin down the market, regulatory (i.e., state-level regulations on device usage and product/service requirements), and competitive dynamics (e.g., pricing, product features, service levels, market share, distribution model); and (3) **robust scenario modeling** of market and company information to estimate market size and build growth projections, including potential cannibalization under the multi-brand strategy, and generate pro-forma and operating profit projections. Gotham then worked closely with company management to validate and design a game plan for the multi-brand strategy, as well as assess the attractiveness of additional growth opportunities.

Multi-Brand Strategy Feasible, With Opportunity To Leverage 3 Brands To Grow Market Share And Profitability

To validate the feasibility of a multi-brand strategy ahead of the planned acquisition, Gotham researched current and pending regulations and interviewed regulators from 24 states representing over 80% of the market; we established there is no regulatory risk of a single company owning 3 distinct brands. We then thoroughly assessed the market and competitive dynamics in each state of interest, by profiling the players and interviewing consumers/influencers. We found that target states were fairly fragmented (6+ players) and consumers primarily selected devices based on price and location.

Gotham worked with the company's CEO and Marketing to develop a "good-better-best" positioning strategy: a **low-cost brand** with low fixed cost structure, leveraging service partners to capture price-sensitive consumers and fend off new low-cost entrants (i.e., Chinese imports); a **mainstream brand** to compete for market share with other national brands, with commonly required features and emphasis on company-owned service centers to control the quality of the customer experience; and, a **niche premium brand** in select states via a tightly controlled higher-end distributor model to minimize the need for added fixed cost. Gotham also facilitated cross-functional working sessions to design a pragmatic roadmap for common back-end device and software platform integration.

Expanding Niche Premium Brand Into Select States Would Allow Company To Gain Overall Market Share And Grow Margins

To identify attractive states for premium brand expansion, Gotham analyzed key market factors state by state (e.g., size/growth, consumer affluence, competitor share/price/distribution model) and ruled out states with restrictive requirements, low pricing, and small market size. We also developed a state-level cannibalization model that: (1) established contribution based on state distribution (company vs. master distributor) and retail approach (company-owned vs. 3rd party service centers); (2) estimated market share loss to each existing brand in the state with the introduction of an additional brand; and (3) calculated net contribution based on projected premium brand penetration and cannibalization impact on additional brands. We recommended an initial list of 5 states, with execution timeline, estimated investment, and projected P&L. Finally, we automated the model for use as a decision-making tool for management to quickly evaluate future state entry scenarios – ensuring maximum profit from further expansion.

Expanding To Canada And Launching New Device Provides Next Leg Of Organic Growth

Gotham also worked closely with management to evaluate and prepare for two additional expansion opportunities:

1. **Canada Entry:** We evaluated the market by sizing each province, determining legislative trends, assessing the competitive risk vis-à-vis the sole market player, and reviewing device requirements/technical standards. We found the incumbent's patents and sole-source contracts were set to expire, and larger provinces were preparing to issue competitive RFPs – given the urgency, Gotham quickly developed a roadmap to enter these provinces and profiled key distribution partners.
2. **Portable Device Launch:** Our team worked with Sales and Marketing to create a go-to-market strategy for the launch of a new portable device to penetrate adjacent markets, by sizing the addressable market, assessing device selection criteria, evaluating competitor devices, and pinning down target channels. Based on ~75 interviews, we found favorable demand for the company's device design and price-point, especially among 3rd party providers, representing over half the market. We then prioritized a rollout plan to focus company resources on the most lucrative channels and geographies.

The Outcome: With Gotham's validation of a multi-brand strategy and a game plan in hand, our client completed the add-on acquisition and launched an effort to integrate hardware and software platforms of its 3 companies to eliminate support expansion of acquired brands in additional states. The client also won a highly competitive RFP to enter one of Canada's largest provinces.

