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MARKETING GROUP

DELIVERING GROWTH

Picking the Right Market Opportunity an Essential 1st Step

Purpose

In this white paper, you will learn:

- Strategic options for growth
- How to select the best strategic growth option
- Pursuing growth organically vs. inorganically

Introduction

"We need growth," declares the CEO at an annual budget meeting for Widget, Inc. "Our sales have been flat for the past year, even though the economy has been good." Turning to the VP of Sales, he requests the sales team to find more opportunities and close more deals. He then turns to the VPs of Marketing and Engineering to lead a growth initiative. The session eventually ends, and everyone leaves to pursue their direction.

The next day, a new product ideation workshop is scheduled by the VPs of Marketing and Engineering. The following week, a two-day brainstorming meeting is held. The team generates many cool ideas, and the engineers propose to prioritize the concepts, because they can't be designed and launched all at once. Everyone agrees with this practical conclusion, and marks their top 3 favorites. It's clear there's a "winner." So the engineers embark on the new product design, and the marketing team begins making launch plans.

Fast forward to 2 years later. The winning new product has been launched and sold for one year. However, Widget Inc. sales remain relatively flat while the market is still healthy. The new product's sales are well-below forecast.

Does this story sound at least a bit familiar? What happened? With all the right intentions and surely talented people, why did the new product fall short of meeting everyone's expectations? The sales team indeed worked harder. They made more sales calls with current customers and probably uncovered new ones. The engineers no-doubt developed a next-generation new product or added exciting features to an existing product. The reason for Widget Inc.'s flat sales in hindsight is that the company innovated within their current core market. This strategy makes sense if the business is seriously threatened by a major competitor, and re-invention for the existing customer base is a matter of survival. However, this was not the case for Widget Inc. and often other companies as well. Widget Inc. was looking for breakout growth. Instead, they unintentionally strengthened customer loyalty which is a completely different business objective.

It's actually quite common for businesses to pursue growth and fall short, even for reputable Fortune 500 companies. A key root cause is that people stay with subjects and processes that are familiar to them. The sales team did make more calls, but probably sold the new product primarily to current customers rather than demonstrate it to new customers in a new market. That's uncomfortable for many sales people believe or not! In all likelihood, the engineers stuck with tried-and-true design principles and technologies to meet present market and regulatory requirements; most do not learn entirely new applications and systems. Habits are hard to break; it's simply human nature.

How Do We Ensure Growth?

The first lesson in charting a path for significant growth is to acknowledge and deal with the "comfort zone" dynamic at work in most companies. We need to prepare employees at all levels of the organization that a major new growth initiative requires us to learn and do new things which can be both exciting and uncomfortable at the same time. Change management and execution are as key, if not more critical, than a perfect strategic plan. (For more details about change management and execution, see the Broadband Marketing Group's white paper titled, "CHANGE MANAGEMENT – Often the Key to Project Success").

The second lesson is to staff the growth initiative with people who enjoy exploring the unknown and challenging the status quo. They should be employees who want to meet new customers, learn new product applications, generate new ideas, create out-of-the-box designs and acquire new technologies. This requires knowing the competencies and skills of your marketing and engineering teams to make sure the right people are in the right seats on the growth bus. If you don't know your employees' talents, then work with your HR team to determine them. There are a number of great assessment tools to identify visionaries vs. implementers. Also consider inviting a knowledgeable customer and outside expert from the market targeted for growth onto the initiative. It takes some investment to reward them for their time, but it will be worth their real-time insights to ensure that a truly "winning" product or service is developed and implemented.

DELIVERING GROWTH
Picking the Right Market Opportunity an Essential 1st Step

The third and most important lesson, which is the main topic of this white paper, is to carefully select the right market opportunity before launching an innovation initiative or holding a brainstorm session. There are many opportunities for growth. It is critical that you strategically pick the one that offers the greatest attractiveness to your company and the highest probability for success.

Ignoring this key lesson and leaving the brainstorm team to choose a "cool idea" places the company's strategic direction in the hands of others who might drive the business toward an unprofitable commodity market. Or it may take the company into a completely new technology far outside its core competencies, thus reducing the growth initiative's chance for success. Or, as learned in the introduction, it may result in innovating among current customers, perhaps causing legacy product cannibalization without any significant incremental growth.

How Do We Select the Ideal Market Opportunity?

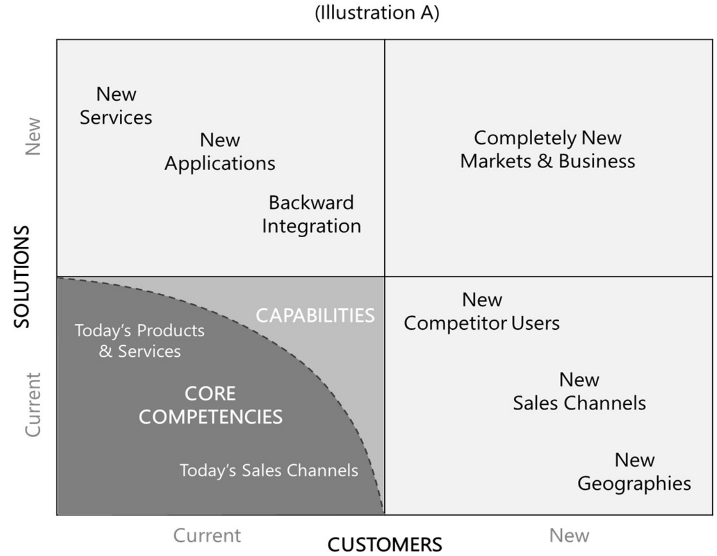
The first step in choosing the best market opportunity is to identify all of the company's options that could generate revenue growth, and there are many of them.

As Illustration A demonstrates, one option is to sell new solutions to current customers (the upper left corner) to increase share-of-wallet or share-of-customer. Think of your existing loyal customers and imagine selling a new service to them. Consider offering a new product as a new element within their system or business. Assess if there's a component within your own product or service solution that you currently buy from a supplier. Could you successfully make it yourself, improve your profitability and grow your topline with it? That's is called "backward integration" and is an improved cost position for your customers in which you may or may not pass along some of the savings.

Another option is to sell your current solutions to new customers (the lower right corner). Profile competitor users and ask yourself, "Why don't they currently buy from us? And what would it take to win them over?" Maybe they need a slight modification to your solution to switch their business. Explore offering your solution through new sales channels such as e-commerce for the customers who prefer to buy on-line. This idea will cause the sales team to express concerns about competing with current channel partners. However, there are ways to establish "rules of engagement" to minimize channel conflict. Another avenue for growth is to expand your business into new geographies where the same or very similar solutions are purchased. You may want to initially open a sales office and/or establish channel partners in the new region. You may then go on to establish a warehouse with inventory if your customers expect short lead-times. With enough demand, you may eventually greenfield a factory yourself or with a strategic partner.

A final alternative is to sell completely new solutions to completely new customers (the upper right corner). This is called "diversification" and was popular in the 1960s and 1970s. However, conglomerate-building seems to be returning to the business world today. As examples, did we ever imagine the company that pioneered computer tablets would get into the business of making cars? And, are we going to eventually take

STRATEGIC GROWTH OPTIONS
(Illustration A)



Selling new solutions to current customers to grow share-of-wallet is often a low risk / high return strategy trips into space from the same entrepreneur who builds electric cars? The growth potential in front of Apple® and Elon Musk sound exciting. However, these new ventures are also risky unless properly managed.

It's okay to dream about entering completely new businesses. Most companies consider the diversification option when other growth alternatives have been nearly exhausted. They can no longer capture more share in current and adjacent markets. Or they are want to bolt on a counter-cyclical business to their current company.

However, you need to know what you're doing and go in with eyes wide open. Picture yourself entering a new business that you know very little or nothing about. Can you effectively run it? If the answer is "no", then you need to partner with or buy a company in that market space who is a leader. If you decide to organically grow that business, then you need to hire people from the target industry who are the best at what they do which is what Apple and Elon Musk have done.

Where Do We Go from Here?

Once all of the growth options have been identified, the second step is to generate criteria used to evaluate each alternative concept. Work as a team to establish your own. However, Illustration B provides some criteria to consider in screening your options:

GROWTH OPTION SCREENING CRITERIA
(Illustration B)

MARKET HEALTH & IMPORTANCE ✓ Market Size ✓ Market Growth Rate ✓ Market Profitability ✓ Potential Competitive Threat
MARKET SUCCESS ✓ Established Market Position ✓ Fragmented Customers ✓ Splintered & Vulnerable Competitors ✓ Core Competency Leverage

Evaluating growth opportunities based on market health and your ability to be successful in that market is quite common

Market Health & Importance

Growing in a healthy market is certainly easier than trying to do the same in a declining market. It improves your chances of success and achieving a greater return on the valuable resources invested behind the growth initiative. Cues for healthy and important markets include size, growth rate, profitability and potential competitive threat.

Market Size – It is typically better to enter large markets than small ones because they offer more room for growth.

Market Growth Rate - Markets that have high growth rates and are expected to expand in the future are more attractive because "rising waters lift all boats." Declining markets are tougher because competitors are in a dog fight to protect what they've got and margins frequently erode.

Market Profitability - Profitable markets are obviously more attractive than less profitable ones, unless your core competency is the lowest-cost provider like Walmart®. High-profit markets are typically niche segments in which customers appreciate value-added solutions.

Potential Competitive Threat – Market segments that protect a company from a potential competitive threat also need serious consideration. What if you identify a new product or new service to sell your current customers (the upper left quadrant), but your key competitor beats you to the punch? Now you are in a position of weakness because they've strengthened customer loyalty and added to the scale of their business. So think about evaluating new market segments based on potential competitor participation and the implication to your company.

Market Success

Not only does your target growth market need to be healthy, it must be one in which you can capture market share and win. Dynamics that improve your probability for success include an established market position, fragmented customers, splintered and vulnerable competitors, and core competency leverage.

Established Market Position - Markets with a base of business already in place are always positive because your share and position have been at least somewhat established. Selling new solutions to current customers is easier because there is a level of confidence and trust that you've earned among them. Thus, the sales and marketing investment to grow in this segment should be lower.

Fragmented Customers - Industries that are highly fragmented with many small customers are attractive because none of them have significant negotiating power due to their small scale. Imagine selling in the discount retail market to companies such as Walmart and Target® stores; they have tremendous leverage unless you also have scale. Now picture participating in a market of many "mom & pop" businesses. You can see that your ability to compete becomes quite different.

Splintered & Vulnerable Competitors - Markets with competitors that are smaller and vulnerable to you are more appealing. It is tougher to enter a market with a few large entrenched players who basically have an oligopoly. They have the scale and wherewithal to combat competitive threats from newer smaller entrants. Unless you have a highly unique and valuable offer that makes it easy for customers to switch to you, and a solution that competitors cannot quickly replicate, it is best to choose markets with many small players.

Core Competency Leverage – Here is where your current know-how and "comfort zone" actually work to your advantage. Market segments that are new but use more of your core competencies than less improve your chances for success. Usually growth opportunities that fall into the lower right quadrant—marketing your current solutions to new customers—typically leverage existing product or service competencies. However, you will likely need to add some new capabilities such as selling in a new channel or learning how to compete overseas. So markets that leverage as many core competencies as possible are rated higher during the selection process.

Now for the Tough Choices

The third step is to evaluate your growth options and pick the top 1, 2 or 3 using the criteria you just developed. It's usually the toughest phase in the process because there are typically many growth alternatives that teams identify, even up to 30 or 40 of them. And often a number of them are tied or relatively close to each other, making the decision to select the finalist(s) a challenge.

The assessment of your growth options can be as quantitative or qualitative as you want. Some companies conduct formal research into the size, growth rate, profitability, customer fragmentation and competitive concentration of each alternative, so that when they evaluate them, they have facts upon which to base their conclusions. This takes some time and investment. However, they feel more comfortable making data-driven decisions. Other enterprises rate the growth options using tribal knowledge and decades of experience participating in the industry. This approach is faster and less expensive, and certain organizations feel comfortable with it. Whatever path you follow, neither is right or wrong. It's how you prefer to run your business.

As in any evaluation process, a rating scale is established for every criterion, usually 1 – 5. The team then rates each growth option using the criteria they've agreed upon, perhaps as the one that Widget Inc. should've used in Illustration C prior to embarking on its brainstorm meeting. Weighting is not included, and the options are limited to a total of 6, to keep the portrayal simple.

WIDGET INC. GROWTH OPTION RATINGS
(Illustration C)

	MARKET HEALTH & IMPORTANCE					MARKET SUCCESS					
GROWTH OPTIONS	Size	Growth Rate	Profitability	Competitive Threat	Sub-Total	Market Position	Fragmented Customers	Splintered Competition	Core Competencies	Sub-Total	Grand Total
Molded Plastics	5	3	2	5	15	2	4	1	2	9	24
Milling Process	3	4	4	3	14	3	5	5	4	17	31
E-Commerce	2	5	4	5	16	1	5	4	1	11	27
Enter Mexico	3	4	3	3	13	1	4	5	3	13	26
Extended Warranty	2	3	5	5	15	1	4	3	1	9	24
Enter Canada	2	2	4	3	11	1	4	4	3	12	23

Many growth options typically fall in a tight ratings range, making the decision of choosing the "winner" sometimes a challenge

However, more sophisticated approaches weight the criteria based on their importance or impact in the company's decision-making process. For example, some organizations may place a higher weight on market growth and profitability rather than market size and potential competitive threat, because they value high-margin businesses and are willing to trade-off high volume. On the other hand, lowest-cost producers may place a higher weight on market size because they seek scale and are willing to accept thinner margins. Thus, the weights depend on the nature of your company and what you consider important.

To help you visualize the outcome of your evaluation and choose a growth option, you can plot the alternatives on a chart as shown in Illustration D for Widget Inc. The size of the circles represents estimated 5th year sales if you were to implement that growth option. Forecasting the precise size of each growth option is less important vs. showing their approximate size relative to each other.

Among Widget Inc.'s options for growth, the new Milling Process is clearly the winner as its Market Health & Importance ranking is fairly good and its probability for Market Success is better than the other alternatives. Thus, if Widget Inc. is willing to accept less, but more profitable growth 5 years from now, then the Milling Process option is the right one for this company.

One Last Important Step

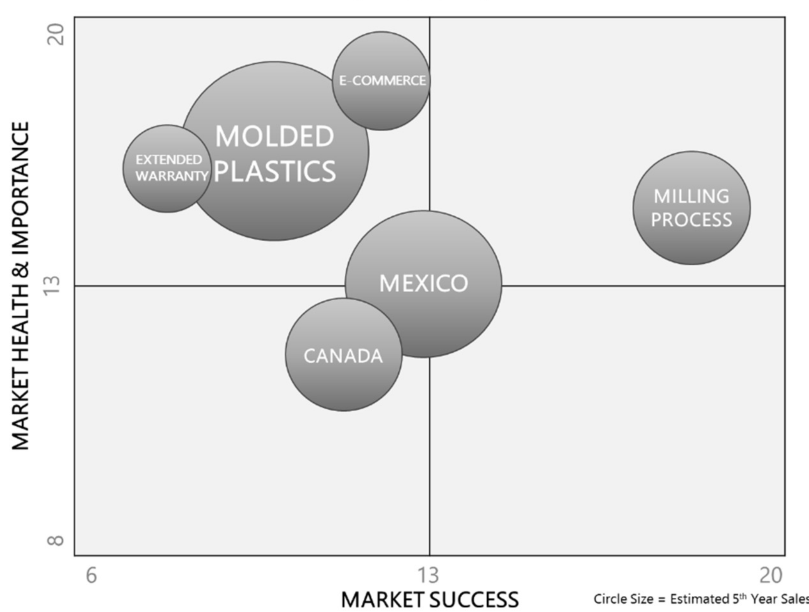
Before telling engineering and marketing to brainstorm on a new Milling Process solution as in the case of Widget Inc., there is an important fourth and final step before unleashing your company's creative talents. That is, to confirm if the winning growth option is best-pursued organically vs. inorganically.

Organic means developing and launching the growth option yourself with primarily in-house resources. Inorganic means strategically partnering or acquiring the growth option rather than doing it yourself. There are trade-offs with each approach. Ask yourself the key questions highlighted in Illustration E:

ORGANIC VS. INORGANIC GROWTH
(Illustration E)

Key Questions	Yes	No
Do we have enough internal know-how & resources to develop and launch the winning growth option?		
Are we willing to wait up to 3 – 5 years to build up revenues and the business?		
Will prospective customers initially believe that our company or brand can provide such a new solution?		
If the growth option is a new product or service, do we have the right sales channel for the new solution?		
Are we the right company with the best capabilities to provide the new solution?		

WIDGET INC. GROWTH OPTIONS
(Illustration D)



The Milling Process growth option for Widget Inc. is the most attractive due to the healthy market behind the opportunity and its high chance for market success

If you answered "yes" to most or all of the key questions, then you should follow an organic approach and pursue the growth option yourself. If you answered "no" to most of them, then you should target and develop a strategic partner or acquisition who can help you be successful with your winning growth option.

Assuming organic growth is the best approach for your company, you can now background engineering and marketing about your new growth initiative, properly scope it, and turn them loose to develop breakthrough ideas in the market segment you've chosen for strategic growth rather than the brainstorm team.

Summary

In closing, use these tips to help ensure that your path to increased sales is successful.

- Carefully select the right market opportunity before launching an innovation initiative or brainstorm meeting by following these 4 steps:

    1. Identify all of the options that could generate growth
        a. Sell new solutions to current customers
        b. Sell current solutions to new customer
        c. Sell completely new solutions to completely new customers
    2. Establish criteria to evaluate each growth option
        a. Market health & importance
        b. Market success
    3. Assess your growth options and pick the top one(s)
        a. Use the criteria to rate each market opportunity
        b. Place them on a chart to help reach a decision
    4. Confirm if the winning growth option is best-pursued organically vs. inorganically

- If the best growth initiative is organic, staff it with people who enjoy being pioneers

- Acknowledge and deal with the "comfort zone" dynamic when implementers are drawn into the project. Change management is critical.

If you take the time to choose the right market opportunity up front and effectively manage for it, you'll improve your chances for significant growth in the end.

ABOUT THE AUTHOR

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During his free time, Paul enjoys his family, training for triathlons and helping children.

If you need support with growth planning, re-invigorating your new product pipeline, change management or other marketing challenges, contact ClientService@BroadbandMarketing.com or call +1 651 393 5974. We would enjoy learning about your business and providing a no-obligation proposal to support your marketing performance.

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