Exclusive to Chief Executive

When Sales are Sparse and Profits Puny, Don't Lower Prices or Spend More on Marketing. Be Smart, Focus and Then Get Aggressive!

by Jerry Vieira

Most entrepreneurial CEOs don't have the economic safety net to tolerate slow market adoption of their new products. When faced with a sluggish reception, marketing and sales teams typically suggest traditional solutions such as branding programs, reducing prices to gain faster adoption, spending more on marketing promotions, adding features to the product or service or casting a wider net – tactics that further drain the company's resources, yet provide no guarantees for success.

If this sounds familiar, the good news is that there is a proven, better way to get back on track with underperforming products and services. Instead of reducing prices (which cuts into margins) or investing more money in branding, marketing or additional product development (which cuts into operating capital and delays introduction further), a quick analysis can reveal a clearer, and more rapid, road to success.

That analysis comprises a look at the product's current customer base to find those hidden few for whom the economic value delivered by the product has proven to be the highest. Quickly redeploying and focusing resources to communicate that value proposition to more customers just like those few proves to be a faster, less expensive and more profitable road to success.

Peter Drucker in his book, *Innovation and Entrepreneurship,* calls this process of finding these narrower, but more lucrative market opportunities, "leveraging the unexpected success."

Take, for example, Planar Systems, a start-up in the mid 90's struggling to accelerate growth pre-IPO. Their flat-panel display business found ways to compete against very price-aggressive and capital-rich Asian manufacturers such as Sharp and NEC using this technique. The result was the discovery and exploitation of some key profitable markets—resulting in Planar sales growth in these segments of more than 50% a year for several years in succession.

One particular Planar product line, an early version of a computer desktop monitor, was struggling badly. Sales and profits were almost non-existent.

It took a couple of weeks of analyzing the current customer base to identify the few "hidden" customers with the right combination of economic value proposition received and market potential. The analysis uncovered the hospital sector, where a mere two customers had purchased a very few monitors—all but unnoticed to the marketing staff. The analysis revealed that hospitals had significant need for distributed electronic access to medical patient records while meeting the space and safety constraints for in-room computer systems. CRT monitors were simply too large for hospital rooms and nurses stations and had inherent electrical characteristics that created the potential to interfere with sensitive medical equipment and increased risk of sparking in an oxygen rich environment. Flat panel monitors were the answer. Price was not a problem. The hospital market simply viewed the product's value proposition as much higher than monitor-buying customers in other segments that couldn't quite see paying $1,000 for a flat panel monitor when CRT's were $250.

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By refocusing on the hospital sector, the following results were achieved in roughly 18 months:

- The average selling price of the product increased from $1,000 to more than $4,000 as hospitals requested additional features (prior to this the sales and marketing teams wanted to reduce prices to compete head to head with the CRT).
- The largest order from a single hospital customer went from $20,000 to more than a $1,000,000.

- The number of buying customers in this new market went from 2 to more than 150—a small portion of the nearly 5,000 hospitals in the US that would eventually need solutions.
- The product line was saved and their business story (now attractive) was integrated into their IPO story.

This company learned that by refocusing on *smaller* groups of more lucrative customers—***not larger***—and by spending ***less*** on marketing—***not more***—a company can often accelerate its growth, improve profitability and assure its initial success.

The steps employed in this customer assessment and market-attractiveness analysis are outlined below.

1. Sort and group all current customers and buyers.

Look at the customer base and identify all the different types of customers no matter how small or insignificant they may appear. The ultimate objective of this analysis is to discover which of these markets is most lucrative, meaning most likely to lead to accelerated profitable growth. Remember that even the "oddest" buyer bought for his reasons not yours. At some point he or she decided that what you were offering to them was the best solution they could find to solve their problem. That's a value proposition you should not ignore—whether you recognize it or not.

2. Rank the markets by the magnitude of the economic benefit received.

The more compelling the problem needing to be solved by the customer, the higher the likelihood a purchase will occur. If one customer in a market segment has a major challenge or problem, very likely others in the same field will be facing similar challenges. If the problem is significant, it's likely that your target customer—and the others like him or her—will pay a premium and have a sense of urgency around solving it. It's not always the big markets that have the biggest problem.

Here's an example. A small compliance-management software company, Compli, ran its customer assessment and found that automotive dealerships had enormous challenges with their need to comply with truth-in-lending laws, training needs, test-drive rules, truth-in-service and safety policies and procedures. Compli had only one such customer in their history file. But once the analysis revealed the magnitude of the value-proposition received by this customer segment and they refocused their marketing effort, sales quickly grew from 1 to 300 customers in this segment.

3. Assess potential to price at a premium.

Once you calculate the economic benefit received from your offering and understand the wherewithal of customers in that segment to buy, you should be able to predict which segments can command a higher selling price.

Innovative products are best introduced in markets where price premiums can be charged for the unique and critical benefit they provide at the time of critical need. For example, the use of Internet purchasing techniques was an enormous strategic enabler for Amazon.com. It allowed them to rip market share away from the bricks-and-mortar book chains like Barnes & Noble. Barnes & Noble needed to quickly respond. Sellers of Internet marketing services to Barnes & Noble at that time worried little about pricing because of B&N's high need to deploy Internet buying processes and recapture its lost share.

4. Quantify the size of the potential market—in sockets.

A "socket" is a potential customer with the problem your offering can solve. In assessing market attractiveness, a company wants to find and fill lots of sockets that are unfilled—or filled with a less-than-satisfactory solution. In the case of Compli, mentioned earlier, not only did the firm discover the need for compliance tools at automotive dealerships, they realized that there were 10,000 such dealerships across the United States! Virtually none of them had a good solution in place, which meant 10,000 sockets to be filled.

5. Evaluate the customers' ability to invest in the solution.

Having a problem does not necessarily imply the wherewithal to purchase.

The higher education/university market segment, for example, is known to suffer from hand-to-mouth funding availability and long purchasing approval cycles.

6. Assess the level of competitive turmoil in the target market.

A high degree of competitive turmoil means pressure on pricing and a high cost of competing. Low competitive turmoil gives you the opportunity to establish and solidify your customer base and value proposition before those competitors asleep at the wheel wake up and try to copy you.

The largest markets always attract the largest players and greatest number of competitors. Therefore, most of the time, it's a better strategy to focus on secondary markets—those existing under the radar. These secondary markets are usually less competitive, less risky, more profitable and easier to penetrate.

The greatest example of this is the Asian approach to penetration of the US automotive market in the late 70's and early 80's. U.S. manufacturers never took the small car market seriously, fearing that if smaller, less-profitable models ever gained traction, profits would be depressed. The big cars were simply too profitable to cannibalize.

But the Asians understood several key factors of the US market at that time; gasoline prices were increasing, inflation was out of control, more women were entering the workforce and would have to commute, interest rates were out of sight and large numbers of baby boomers would be reaching the age to set up households. The Asians designed a few small cars that met all of these requirements. Their success story is history.

7. Double-check your company's capabilities vis-à-vis what's required for success in the target market.

Business failures are not uncommon when companies attempt to penetrate markets for which their basic capabilities, assets, culture and structure are a mismatch. Many large companies charge after potentially large markets only to find they were simply not suited for it. Texas Instruments, arguably one of the world's most technically advanced semiconductor companies, made a multi-year, multi-million-dollar foray into the consumer electronics market with digital watches, computers, calculators and educational toys. They miscalculated the requirements and internal capabilities needed for success with consumer products except for their calculator products that they marketed through influential educators they already had cultivated.

Professor Tom Bonoma, in his book *The Marketing Edge,* described one of the primary reasons discovered in his research for strategic failure. He called it "structural contradiction"—depicting companies that move into a market without understanding the fundamental structural and cultural mismatches that need to be overcome to succeed.

8. Assess the availability of a relative perceived quality leadership (RPQL) position.

Research from the Strategic Planning Institute concludes that the single most significant factor affecting a business unit's performance is the quality of its offerings relative to its competitors (quality being defined as match to market needs). The degree to which an RPQL position is available, unclaimed, or vulnerable (if some competitor already owns it) is a key factor in making the final determination of which market to focus on.

9. Evaluate the strength of the target market's intra-market network.

Studies show that the use of communication within an intra-market network is 13 times more successful in influencing the purchase of a product than relying on mass media. The intra-market network comprises venues and opinion leaders who frequently share information with each other.

Some industries have stronger intra-market network opportunities than others. The intra-market networks in the hospital, municipality and agriculture markets, for example, are much more effective than in, say, the high-tech market where competitors rarely communicate best practices with one another. Leveraging an intra-market network as a key part of your marketing program brings to play the geometric nature of communications and adoption – significantly reducing the need for your sales team to sell one customer at a time.

Mary Kay Cosmetics is a great example of how using the intra-market network can successfully launch an RPQL product into an under-satisfied sub-segment of an apparently saturated market. That's being smart, focused and aggressive.

In summary, whether your product lines are stalled or not, or new or old, a constant sifting through the customer base to reveal new lucrative market opportunities proves an inexpensive and rapid way to build a wall of success—brick by brick. Each brick is the combination of a high customer-received economic value proposition and lucrative market circumstance. Leave brute-force and traditional testosterone-driven marketing approaches to others. They're expensive, don't work most of the time and can obscure and delay finding the best answers.