

THE COMPETITIVE EDGE

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BEST MARKETS FOR GROWTH

Want superior business growth? Offer a potent value proposition. Focus on the best markets for growth. Use an effective business design. The better these three growth drivers are, the better your business growth will be. In our September newsletter, we described how to develop a potent value proposition. In this newsletter, we focus on the best markets for growth.

IDENTIFY THEM

The best markets have three criteria:

- They are big enough to support growth.
- They contain customers that value highly what you offer.
- They are not overly expensive to serve.

Identify and focus on markets that have these three criteria. Better growth will follow.

Marvin Steel learned this principle by accident. This maker of metal bagel baskets almost went under when Chinese companies offered similar products at prices below Marvin's. They were saved by a telephone call out of the blue. Boeing wanted to know if Marvin could make metal baskets for parts to be used in Boeing's factories. Here was a different market, a large market, that valued Marvin's baskets much more than did the bagel stores and was not too costly to serve. Marvin focused on the manufacturers. Result: a 10-fold increase in revenue.

eCompanyStore LLC followed the market focus advice. As we noted in July of last year, they were a \$1.4 million promotional products company, one of 19,000 in U.S. Sales came from small orders for promotional items like t-shirts and caps, with some sales from setting up store Websites for customers. The owners, Walt Geer and Jay Flowers, knew they could not grow with their existing market focus. They realized they needed to focus on markets that were most cost-effective to serve. Conclusion: They focused on Web stores and "fired" 98 percent of their customers. Result: In four years revenues grew 15-fold, to over \$20 million.

It's easy to describe how to identify the best markets. First identify all the markets you currently serve or potentially could serve; then rate those markets against the criteria of size, perceived value, and cost to serve. It's harder to do the work needed. Many hurdles stand in the way.

For example:

- the markets may not be defined well enough,
- data on the three criteria may not exist,
- bad assumptions may lead to false conclusions.



INCREASE GROWTH IN CURRENT MARKETS

Improve your business growth through carefully segmenting current markets.

A common error is to use segment definitions that are too broad and cover up opportunities.

In the 1990's, Fiberite made this mistake. Its management thought they had 90% of the aircraft interiors market, so they pursued growth in new markets. They were not successful. New management found the mistake. They had defined their market too broadly: entire airplane interiors was their basis for segmenting the market. When Fiberite made separate market segments of the passenger compartments and cargo holds, they were surprised. They had only a small share of the cargo-hold market, not 90%! Cargo-hold interiors then drove significant renewed growth.

Segment your current markets properly. Then rate the segments on growth potential, value perceived by the customer, and cost to serve. Focus on the best segments.

Plastic injection molder Nypro is an extreme example of this principle. In the late 1980's, the company decided to focus on the top 20% of its customers. To succeed with this focus, they would need to improve greatly quality and key processes. To concentrate on the needed improvements, Nypro "fired" the other 80% of its customers. Result: Sales grew from \$20 million to \$150 million in eight years and reached \$1.2 billion in 2013 when Jabil acquired the company.

GROW IN NEW MARKETS

Insightful market segmentation exposes growth opportunities in new markets. The key is to use new dimensions for segmentation.

Mars, Incorporated. illustrates the power of insightful segmentation. Starting in 2000, the company explored new markets for its candy. It did so by segmenting candy customers by age and types of candy use, something Mars had not done before. Mars' traditional market for its M&M's was children, mothers, and teens. Aside from color, the candies were all the same.

The new segmenting opened up the possibility of creating personalized M&M's, true one-to-one marketing. Customers could personalize M&M's with unique birthday, wedding, graduation, anniversary, promotion, retirement, etc. designs and wording. My M&M's was launched in 2004 and has become a potent source of growth for Mars. Visit the My M&M's Website to experience the markets created and the potency of concept.

PRESERVE THE FOCUS

When you identify the market segments on which to focus, the challenge will be to maintain that focus. Avoid the distraction of apparent opportunities that do not fit (but be alert for new ones that do fit). Avoid also giving up too soon on the effort needed to make the best-markets focus succeed. Usually it takes 2-3 years to really get the growth engine going.