

## THE MARKET INTELLIGENCE LEVER AND NEW MARKET ENTRY

*Awareness of external market opportunities is critical to top managers' selection of strategic direction. After all, strategy is all about choosing, from an array of options, the path that is most likely to lead to accomplishment of the corporate goal or objective. The purpose of this market intelligence lever is to help select the most attractive segments that your company could compete in, given core competencies, and the strategic direction of the company.*

*Think of the market intelligence lever as a tool available to a senior executive to gain awareness of opportunities that should impact company strategy. The senior executive who takes advantage of this lever is able to select new markets, and more specifically, new segments of his/her own market, that represent real opportunities.*

### A Research Process

A simple comparative analysis of the segments of one's market can be highly effective in determining where to focus. The

purpose of the market intelligence lever is to ensure that your company is competing in those segments that are highly profitable, growing, and otherwise attractive.

In order for an executive to utilize the market lever, however, the company must develop a research process. The process ensures an ongoing, never-ending pursuit of insights in each of the segments of the company's market and the markets it is considering entering.

This is more difficult than it sounds. Often, no off-the-shelf research reports exist on obscure, narrow, segments in which your company may compete. The Company may need to develop a relationship with a trusted research, consulting, or strategy firm that is skilled in gathering useful market insights on potentially obscure segments.

Prior to instituting an ongoing process for gathering market segment data, the company must define all of the segments of its market and the markets it is considering entering. Segments can be defined on the basis of geography, product/service, distribution channel, end-customer served, consumer demographics and psychographics, and so on.

A first step of the research process may be to determine the critical success factors of serving the market. What are the required “givens” of a Company competing in this space? Does the Company need to have a particular technology, does it need a particularly broad mix of products, does it need to be able to deliver orders immediately, or does it need to be in direct control of its own sales force, for example?

By analyzing the market, you may learn, for example, that the critical success factors associated with competing in the market are rather intimidating or that the regions and product segments of interest to you are not growing nearly as rapidly as other parts of the market.

### **Decide whether you have a clear advantage over other prospective entrants or existing players.**

Because of your unique technology, experience, or access to customers, your firm may be able to overcome some of the barriers to entry that are imposing to other prospective new entrants. An ideal market for entry is one in which your firm has a clear advantage over other prospective entrants or even the existing competitors.

### **Identify an unmet market need or underserved market niche.**

Your firm may have discovered an underserved market niche. While other competitors are either not aware of a particular customer need, or are unable to serve it, you may have the unique ability to please customers. Market entry makes a lot of sense when your firm has discovered an unmet market need or an underserved niche within a defined market segment.

### **Find the “Goldilocks” sized market segment.**

The ability to influence or have a strong impact on the industry is hardly enough reason to justify entry; the potential new entrant must take the size of the market opportunity into account. While many strategic planners look for the obscure, niche segment and shy away from markets large enough to accommodate the proverbial “800 pound gorilla,” most would agree that the smaller the market, the more difficult it is to justify entry. Your best bet may be a “Goldilocks” market – neither too large, nor too small.

### **Look for a growing pie so that your slice does not have to come from other players.**

An adequately-sized, but shrinking market is obviously less attractive than one that is rapidly growing. The growth rate of the market should be considered prior to making a decision about market entry. It is much easier to enter a growing market than it is to enter a market by stealing share from other players.

### **Conduct your own Competitive Analysis of each market segment under consideration.**

Michael Porter, a long-time Harvard Business School professor and author of Competitive Advantage and Competitive Strategy, established a simple framework to assess the attractiveness of a market. For Porter, the level of competition in the industry is a very important factor. He segments his analysis of competition into Five Forces that shape the industry: The Bargaining Power of Customers; The Bargaining Power of Suppliers; The Threat of Substitute Products; The Threat of New Entrants; and the Current State of Rivalry Among Existing Competitors in the Industry.

A perfect market would serve customers who are small, powerless, and highly dependent upon the industry's competitors. There would be a large number of relatively similar suppliers (your suppliers or your competitors' suppliers), each of whom places great value on the business of its customers (your firm and your competitors). The Bargaining Power of Suppliers and of Customers would therefore be low. The segment would be innovative and would involve substantial barriers to entry so that the Threats of Substitute Products and New Entrants would also be low. Finally, there would be enough competitors and enough price elasticity so that the level of Internal Rivalry among Existing Competitors would not be high.

Using Michael Porter's Five Forces framework, strategists can predict how difficult market entry would be, where the most significant competitive threats are coming from, how intense the direct competition is, how powerful the suppliers and customers are, and what the likelihood of a substitute product might be. Understand the competitive threats and/or Red Flags associated with market entry – before you enter the market.

### **Identify markets that are in a state of “disequilibrium.”**

Porter would also look for a market that is undergoing some degree of change or transformation (“disequilibrium”). A stagnant industry is less likely to embrace a new entrant. An industry that is aggressively seeking new solutions, on the other hand, represents much more of an opportunity.

### **Find pockets of unhappy customers with low switching costs.**

Similarly, an industry whose customers are not being well-served could easily accommodate a customer-focused new entrant. The level of customer satisfaction in some industries is shamefully low. New entrants may wish to assess the level of customer satisfaction, their difficulty switching suppliers, and the process that major customers go through in selecting a new supplier. You may also wish to consider your unique differentiation and how it may affect the industry’s structure, reduce customer costs, or improve upon the industry’s standards of product quality. If customers are generally happy, switching costs are high, and price is the most important purchase decision factor, you may want to look for another market.

### **Unhappy customers are not enough; they need to be willing and able to spend.**

It is essential to understand the price points paid for competitive products and the degree of willingness to spend more for a better product. Can the customers justify a more expensive product? Do they want to spend more? Are they willing to give their business to a new entrant?

### **Understanding the customers’ purchase decision criteria is essential.**

A US manufacturer of production equipment literally took the blueprints of its US plant to Brazil to replicate its US facility. The Company built products for the Brazilian market that were originally designed for US purchasers. The results were disastrous. Every aspect of the purchase decision process of those products – the very definitions of quality, service, and price were different in the two countries. The result was that the US Company produced a useless product for that new market, which actually did represent tremendous potential.

Select markets in which the customers’ primary purchase decision criteria are in alignment with your competencies and

capabilities. If they value delivery time, for example, can you compete on the basis of this criterion?

On the other hand, your customer analysis may reveal that customers place tremendous emphasis on pricing, have few other unmet needs (which means there is little chance of differentiating yourself), and are prone to switch suppliers frequently. As a result of customer insights alone, you may decide that this is not the market for you.

### **Prioritize.**

Instead of marketing a product in one way to everyone in the overall market, recognize that some customer, competitor, and market segments are not only different, but better than others for your company's competencies. Focus on those customers who value your unique capabilities. Sell them the specific products that are most attractive to them. Use the channels that are most efficient for you. And take into account competitors' capabilities and intentions so that you can focus on the paths of least resistance.

After gathering data, the analysis can begin. The Company will need to prioritize these segments in order of attractiveness, given the market data collected. Consider

combining segments. For example, how would an exciting geographic segment look when combined with a particular distribution channel? We are looking to identify interesting new options for the company to consider.

More important than this awareness of market opportunities and threats is a process for incorporating this understanding into the strategy. Companies should focus on those opportunities that they (more so than competitors) are best able to address.

Now that you have identified an attractive market segment, be as specific as possible about determining how to penetrate the chosen segment.

### **It may seem obvious, but...All else being equal, choose the more profitable of two markets.**

If you can choose your market (you should), you might as well choose one that is profitable. One could argue that the stakes are higher in profitable markets. One could also argue that large players are attracted to profitable markets. I agree. But if you find two markets that are attractive to you based upon the previously mentioned factors, I

suggest that you identify and enter the more profitable one.

### **Observe macro-level trends.**

If you still need to find a reason to justify market entry, consider the macro-level themes and trends that could impact the market. Does the aging of the baby-boomer population affect this industry in any way, for example? What about themes involving education reform, alternative energy, or the healthcare system? If so, the market could benefit and your entry could be made easier.

### **Beware of regulatory hurdles.**

Identify any limitations on trade, including tariff levels, quantitative restrictions as well as non-tariff barriers to trade (i.e. regulations and standards). Some regions offer much more favorable regulatory conditions than others. This issue may become the deciding factor for you in deciding between two attractive foreign markets.

### **A Process to Maintain Awareness.**

It is important to conduct a regular review, or check-up, of each market segment of interest. Ideally, this assessment should be

conducted by an objective third-party who can gather candid feedback and insights.

Candid conversations can cover issues such as emerging trends, new products, evolving needs, new concerns, opportunities, threats.

Of course, being aware of these opportunities is only half the battle. Companies must also be able to process these insights and incorporate them into strategic planning.

### **Incorporate these insights into the strategic planning process.**

The result of this introspection and analysis of external data is a strategic growth plan that tees up options and enables decision-makers to select from opportunities that have varying degrees of attractiveness.

### **Market Position.**

As Carol Thayer points out in "Setting Up Your Own Business: Developing Your Marketing Plan and Sales Goals," if your product or service is properly positioned, prospective purchasers or users should immediately recognize its unique benefits or

advantages. Positioning is how you give your product or service brand identification.

After analyzing market segments, develop a distinct position for each target segment.

Your company will likely need to promote its product attributes differently for each target market. “Your marketing position can, and should, change to meet the current conditions of the market for your product. The ability of your company to adjust will be enhanced greatly by an up-to-date knowledge of the marketplace gained through continual monitoring. By having good data about your customers, the segments they fit into and the buying motives of those segments, you can select the position that makes the most sense.”

### **Case Study Example.**

A large manufacturer of audio components had developed several hypotheses about ancillary market segments (defined as geographic segments, segments that defined how they would apply or utilize the audio components, and segments that described the end-user types). Unfortunately, these intentions were based on hearsay, speculation, and wishful thinking.

Thankfully, before proceeding any further, the Company researched and prioritized geographic segments against its internally

developed criteria describing what would make an international market attractive. It also researched and prioritized the application segments and the end-user segments.

Suffice to say, had the Company entered the markets it originally intended to focus upon, it likely would have failed dramatically.

Testing hypotheses about market growth, profitability, ease of entry, degree of opportunity, unmet customer needs, and competitive intentions and capabilities, for example, is an essential step in making re-positioning decisions.

### **Conclusion.**

Gaining access to insights about market opportunities is a critical first step toward understanding your company's actual options for strategic planning. Fact-based, as opposed to perception-based, insights should lead to analysis and prioritization of opportunities, which leads to development of options, and finally to the creation of strategies and tactics.

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