

Causing Growth In Business To Business Markets

Every strategy can be improved – Here's how

Executive Summary:

- Growth, in business to business markets, is primarily caused by salespeople.
- The number of salespeople determines the size of the market the business must focus on winning.
- A business plan that targets markets that are too large for the salespeople to cover will fail to produce the desired growth.
- There is a method for determining the right sized market for every business plan.
- There is a best method for paring the market down to the size that will produce the maximum growth now and in the future.
- The measure of a valid growth strategy can be judged by the answers to five questions. Questions that cannot be answered indicate how the strategy can be improved.

Most businesses that sell products and services to businesses find themselves dealing with excess capacity and no clear direction on how to cause the growth they need to thrive. There is a natural tendency, by all businesses in this situation, to look to new markets, new products, and/or new services as a way to generate the needed sales. Unfortunately, most business plans ignore a vital detail that can mean the difference between success and failure in achieving the desired growth.

When a business is experiencing an excess capacity situation, the only resource that can directly cause growth is the business development resource. This means the size of the business development resource – the number of people actively involved in winning new business – necessarily limits the size of the market that can be targeted in the business plan. Growth is caused by the business' willingness to concentrate resources on the targeted markets for **a long period of time**. Business development resources must be concentrated on targeted accounts to insure growth in the short term. Product and service development resources must be concentrated on targeted market segments to insure growth in the long term. Markets that are too large dilute the concentration of **both** of these vital business resources.

Market size has two components. One is the total amount of money projected to be spent. The other is the number of accounts that make up the market. There must be a valid estimate of total spend to insure the market is large enough to meet the revenue goals of the business plan and there must be clear criteria to identify which accounts are included in the business' definition of the targeted market. The business plan must also clearly state its assumptions about the number of accounts that can be effectively managed by each business development resource. It is the **number of accounts** that **consumes the capacity** of the business development resource and determines the size of the market that can be pursued by the business plan. A larger market will **not** lead to more growth **if** it exceeds the capacity of the sales force to manage.

Managing the accounts in a market means the sales resources are calling on the right accounts with the right frequency and growing account share in **each** targeted account. This means each salesperson has a written list of accounts that are being targeted for growth over the next one to three years. The business' strategy must provide clear guidance on the kinds of accounts the salespeople should choose in their territories.

What Is The Right Size Market In Spend?

Here is a rule of thumb to help. The suggested planning horizon is three years. Target market segments where your business can **realistically achieve at least a 25% share by the third year** (50% if already at 25%). For example, let's say the business plan is based on generating \$10M in revenue in the first year, \$12M in the second year, and \$14M in the third year. A market projected to spend between \$42M and \$56M in that third year is just right. The \$14M goal will represent at least a 25% share position (of the \$42M – \$56M market) in the third year. A market that is

projected to spend more than \$56MM is too big! The business plan must narrow the focus further until it gets to the right sized market.

What Is The Right Size Market In Number Of Accounts?

Markets must be large enough in money spent to meet the revenue goals of the business, but small enough in number of accounts that salespeople can be contacting the targeted accounts much more frequently than all competitors. The goal of achieving a 25% share of the market in the third year determines the right sized market in spend, but does not deal with the number of accounts that are included in that market.

Here is a rule of thumb to help determine the right number of accounts. If the products and services are perceived by the account to be relatively equal and one competitor does not already own the account (75%+ account share), then the buying influences within an account must be contacted **two to three times more frequently** than all competitors. Gaining account share in business to business markets requires contacts on many different people for a long period of time. A business plan that targets a market that has too many accounts will constrain the ability of the business development resources to generate sufficient contacts on the targeted accounts. This will constrain the growth potential.

Segmenting A Market – The Right Method To Drive To The Right Size

Virtually all strategies for growth today are in fact “targeting” markets that are much too large to win. Thus, businesses need a method to cut the market down to the right size to insure maximum growth. A basic tenet of this model for growth is that businesses buy products and services because they expect to produce better business results. Every dollar in every budget in every for profit business is put there under the assumption that the money will be spent to produce good business results. Thus, the logical segmentation would be by business results produced and the logical method for reducing the size of the targeted market is to identify those segments that will produce the best business results with your solutions.

However, there are two categories of results any for-profit business wants to produce and one is **much more important** than the other. The first category of results is related to **purchasing** the solution – low price, quick delivery, and smooth implementation. The second category of results is related to the **operating** results the business expects to produce with the solution once it is implemented. A plan based on improving a market’s purchasing results – low price and quick delivery – will not drive significant growth! After losing a few sales, the entrenched competitors will simply be forced to match the price and/or delivery and they almost always find some way to do it. The best method for segmenting markets is to segment by operating results. Operating results are produced by only two departments – Operations & Sales. These are the only departments (outside of Finance) who make the business money. All other departments cost the business money and their one primary responsibility is to help one or both of the operating departments **make more money now and in the future!**

What Are Operating Results?

Businesses that use your products and services to produce their own products and services make money by increasing the output of operations and reducing the operating expenses needed to produce the output. The key question is to learn if accounts using your solutions make more money – higher output &/or lower operating expenses – than accounts using competitors’ solutions.

For example, if you are selling to a meat processing plant, do they produce more quality meat today because of your solution? Until you learn the actual output of various segments of the meat market, you do not know the answer to that question.

Do they have lower operating expenses today because of your solution? Until you learn the actual operating expenses of various segments of the meat processing market, you do not know the answer to that question either.

Markets Must Be Segmented By Operating Results, Not Purchasing Results

Purchasing, Engineering, IT, HR, and Consultants are responsible for evaluating the various suppliers. They evaluate based on features and capabilities and then work to win lower selling prices, faster deliveries, and smoother

implementations. These are **purchasing** results, not **operating** results. The output of these people still boils down to cost – they cost the business money.

Capital budgets and operating budgets are justified based on producing improved **operating** results from Sales and Operations. The low price and quick delivery purchasing results are just a means to an end. The real reason the business is buying is because it expects to produce more quality output and/or lower operating expenses. Segmenting businesses by the way they do their work and the operating results produced by those methods is the best approach because better operating results are the **only reason** any customer would pay a higher price. If you are Dell or Southwest you can win on price, but very few other businesses have been able to gain share for long simply by offering a lower price or faster deliveries.

The Purpose Of A Strategy? – Concentration Of The Limited Resources That Will Cause Growth Now & In The Future

Since all businesses are resource limited, the purpose of the strategy is to help any business make decisions on how to allocate its limited resources to produce profitable and sustainable growth for the 3 year planning horizon. Segmenting by operating results gets the salespeople focused on learning this information during the pursuit of current sales. That will help produce good short term results: Shorter cycle times, higher win ratios, and higher margins **this year**. For more information on how to manage the implementation of the strategy to cause sales productivity to increase please request the paper, “*Measuring & Managing The Business To Business Sales Force*”.

Segmenting by operating results gets the new product and service development people focused on how to develop solutions that will improve operating results in the future. That will help produce good long term results. Shorter cycle times, higher win ratios, and higher margins **next year and beyond**. A strategy based on producing better operating results for targeted markets does not necessarily mean your business is capable of doing it now. **It means your business is committed to doing it in the future!** No other method of segmentation will produce faster or more profitable growth!

Operating Results Are Different Than Needs – The Correct Focus For New Product And Service Development Resources

There is a vital point to be made about developing new products and services that will produce profitable growth in the future. Reducing the time to bring new products and services to market, which most companies are working hard to do, has **nothing to do with insuring the product or service** will sell fast once it is launched.

Segmenting markets by needs can be misleading because the need identified is dependent on who provided the information. Market research tends to be on people who make buying decisions and these people tend to be technical – engineers, HR, legal, and IT would be examples. These people are thinking about product features and corporate capabilities – not improved operating results. Review any list of market needs and you are likely to find mostly features and capabilities.

Segmenting by business results produced (especially operating results) keeps the emphasis on the operating results that will be produced **if** the development team builds in the right features and capabilities!

*A business is developing a new conveyor belt for food processing companies. One common problem is food falling off the belt during processing. A list of needs generated from the market is nothing but features and performance capabilities – smaller openings, higher sides, less vibration, different materials of construction, and so on. These **are not** the needs of food processing companies! The real need is to reduce lost product!*

*The list of features is important, but **only in the context of producing better operating results**. It turns out that the very same features – openings, sides, and even materials – require **significant** differences to reduce lost product in beef processing versus candy processing versus bakeries.*

Segmenting by business results produced means the **measures of the problems** are known for **each** market segment. In business to business markets, simply knowing the problems and needs **is not enough** to develop superior products and services. The only valid measure of a superior product is the operating results the market can produce with it. For more detail on the four questions that must be answered please request the paper, “*How A New Product Or Service Should Be Launched (& Developed)*”.

Strong Companies Win Market Share From Weak Companies – Measuring Strength

Most business plans start with a S.W.O.T. (Strengths, Weaknesses, Opportunities, Threats) analysis. The plan includes a list of strengths and weaknesses but no measures (other than possibly market share although very few companies have a good idea of the actual size of their markets in spend) that enable a valid comparison between competitors. If strengths and weaknesses aren't backed up with measures, then they can only be opinions. And opinions about strengths and weaknesses will usually lead to mistakes in how markets are segmented in the business plan!

Only three measures are required to capture every item on a business' list of strengths and weaknesses. Each can be objectively measured against any competitor in any market segment. They are:

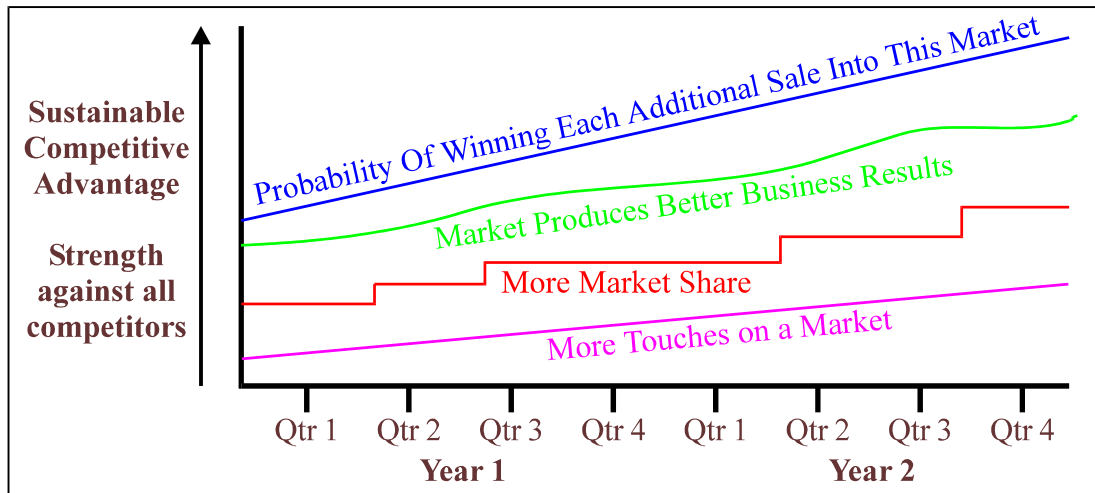
- 1. Market segment share** (More market segment share means more strength.)
- 2. Products and Services** (Products and services that produce better business results means more strength.)
- 3. Sales and Service People** (More "Touches" on the market segment means more strength. A Touch is defined as a face to face or voice to voice contact by anyone representing your business on any account in the targeted market segment.)

The strength of **each** competitor in a market is a combination of current market share, the business results (operating and purchasing results) being produced with the current offerings, and current business development people calling on the market. The business plan must identify segments where your business already has an edge or can quickly develop an edge in one of the three strength components. Offerings that produce better **operating** results is the most important strength component. But simply concentrating more Touches will often be enough to gain market share in most market segments today.

The Business Plan must answer 5 questions for **each** targeted market segment

1. What is the estimated size of the targeted market segment and what method was used to calculate it?
2. What criteria define the accounts within the targeted market segment?
3. What operating results are being produced by the targeted market segment?
4. What improved operating results can be produced with our Offerings?
5. How many Touches must be deployed on the targeted accounts?

The launch of the strategy must **alter the Touch pattern of the sales resources** to produce the desired growth. There must be an increase in Touches on the accounts in the targeted segments. Answering the 5 market segment questions clarifies the targeted markets and clarifies the kinds of accounts salespeople must be pursuing in their individual territories. The effect of increasing Touches on a targeted market segment is graphically illustrated below by an increase in the Touch curve over a two year period.



Concentrating Touches on the right accounts will cause sales to be won. The increase in the market share curve reflects the fact that more sales are being won than lost. Since businesses buy to produce better business results, the accounts in this market should begin to see their business results improve over time. This is reflected by an increase in the business results curve. An increase in **any** of the three curves representing corporate strength (the Touch curve, the Share curve, or the Business Results curve) increases the probability of winning future sales within that market.

A strategy that can effectively answer the five market segment questions **and** is based on the principles outlined in this paper **and** is well implemented, will cause any business to exceed its revenue and profitability goals fast!

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