



## **BUILDING A HIGH-PROFIT BUSINESS MODEL**

Executive Overview for:

### **The Hierarchy of methods to generate High Profits from your pre-selected Product-Market Sets**

*"In a previous segment we discussed the importance of selecting the Product-Market Sets with the greatest profit potential and then focusing considerable quality time on how your gross margins and profits can be improved with committed initiatives and goals to improve pricing, reduced special deals, reduce direct cost and overhead expenses, etc. Assuming we have done all we can to optimize PMS profitability, we now talk about the hierarchy of probability in getting the selected PMS Products into current and potential new markets. We also talked about how we always want to look for "market voids" that your company can fill utilizing your Core Strengths. Our goal is to redefine or create new product solutions that are so attractive to customers that it will allow our company to 'establish the rules' and set the pricing, at least for a period of time". - YourBoard.US*

1. The four approaches to expanding growth with new products and markets.
2. Redefining or creating a new market by establishing new "market requirements" that only your product or service can effectively satisfy.
3. Using your market knowledge and creativity to combine product solutions that your core strengths will allow you to develop, to an identified "open space" where there are no current acceptable solutions. This is called filling a "market void."



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1. **The best method to grow your business is always to sell existing product groups into existing target markets and customers.**

It is always best to sell additional “good margin” product groups into target market customers that you already know and understand and, more importantly, who know you and the value your products and services bring to them.

**Strategy** - This becomes a “reference” strategy. If your market share in a particular PMS is determined to be below 30%, you can generally increase your sales at decent GP with a strong marketing and sales penetration strategy. Using your existing relationships to expand your presence with additional buying influences and additional customer locations is your best path with the least resistance. This is discussed in detail in the segment, “Building a Bridge to your Target Markets.”

Depending on the current market share within your existing Target Market Sets, the number of customers in the target market, competitive make-up and pricing environment and where the product sits on the “product life cycle curve”, your company should more than likely be able to grow your business within your currently selected Product-Market Sets with a defined marketing and sales penetration focus.

2. **Achieving successful sales growth by selling existing product groups into new markets (Industry categories or geographic) with new customers.**

There is an old saying that having “good relationships” is more important than having “good products.” It is always said, that all things being equal, customers like to do business with people they know and trust. The key will be, not having all things be equal. This is where “differentiation” plays a key role. Expanding your product groups within a target market and customer base that is familiar with your company, its products and its reputation makes things much easier for growth. Even if target market customers don't currently do business with you, they know your company and its good reputation.

Establishing new markets and new relationships always takes more time than expected and costs more than planned. The rule of thumb is that it takes twice as long and costs twice as much as you initially planned to effectively gain market share in a new market with a new customer base. That is, of course, unless you pursue an aggressive pricing strategy to gain acceptance which, in the long term, can be a problem if you have competition with deep pockets.

Having said that, your company must enter new target market industry categories and new geographic regions with your product groups if you intend to grow, which you must do to survive.



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Having a well thought out “performance and service differentiated” marketing and sales plan, and then allowing for a reasonable timetable reflected both in your strategic plan and your annual budgets, is important as you plan entry into a new target market and/or geographic area.

Taking your product groups into new PMS categories or new geographic regions is a must. Having a good plan and a realistic timetable will eliminate a lot of frustration.

There are several tactics for entering “new markets” outlined in the segment on “Building a Bridge to Your Target Customers.”

3. **Achieving successful sales growth by selling new product groups into existing target markets and customers.**

If we are true to our theme that “good relationships” are more important than “good products”, and that all things being equal, people buy from people they know, like and trust, we can conclude that selling new product groups into existing target markets has a very good chance for success. Let me first say that the old sayings, like the one above, are not always true and very conflicting, as most old sayings, wives tales and urban myths are.

If you want existing good customers to buy from who they know, like and trust, I can pretty much guarantee they won't like you or trust you for long if you abuse the relationship by introducing them to a new product group that doesn't meet their standards and expectations for great performance outcomes, strategic support and customer contact service. When you introduce a new product you put your reputation on the line for all of your products - so it must be ready and be right.

The message here is that the second best method of growth is to sell a new product group into an existing target market and customer base, if the new product or service is ready for market and will be looked upon as a competitively differentiated product that will enhance your company's reputation and not endanger your good relationship or put any of your other product groups in jeopardy.

One more old saying that applies here...you only get one chance to make a first impression. While this is a great avenue for growth, be certain the product performance is 100% ready to meet the customer's outcome requirements and that our marketing claims are accurate and our service team is ready to support the new product group at the same level the customers are accustomed. We will discuss in detail the very successful concept of “pro-active customer service” in the segment on “Building a Bridge to your Target Market”.



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4. **Achieving successful sales growth by selling new product groups into new target markets. This is a high-risk approach to sales growth. On paper, it looks great to have the ability with a new product group to fill a “market void” and potentially hit a home run, but be cautious.**

This has successfully occurred many times with these stories being highlighted in the press and media. While it can and does occur, this situation is not the rule of thumb.

If there is a product group that your company had the core strength resources to produce that incorporates differentiation and actually redefines the positive outcomes for a new target market (group of people with homogenous needs), then I would say go for it.

In these cases the product in itself will be looked upon as “revolutionary” and the news will spread quickly. An example would be a cure for cancer, a diet pill that really works, a product that extends our life, or grows hair, etc. My summary comment is that selling a new product (with a high probability that there are still some unknowns) to a new market and customer base, where you have no relationships can be risky unless the competitive differentiation is clear and the quality and performance meet or exceed the advertised expectations.

The investment in marketing and sales to introduce and bring awareness to your new product group, in a new market is very expensive. It can be done, and it has been successfully done many times, but it does require a considerable investment in marketing and sales with hope that there is significant enough differentiation that the word spreads so there is a high multiplier on your marketing and sales investment.

The goal is to create a “herd” mentality where the early adapters (initial users of your new product) are followed quickly by the herd.

**To successfully take a new product to a new market demands that your product and service differentiation be easily understood with a high potential for acceptance.**



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**5. Your team should continue to ask the question: “Is it possible to redefine or create new market requirements that only your product can satisfy?”**

Whenever it is possible, rather than trying to compete with an existing competitive product as a “me to,” attempt to convince a targeted group of customers that there is a “new category of product performance” emerging that will improve the performance outcome for a customer’s specific needs. It is an attempt to create a new “solution category” that meets the needs of an old customer requirement.

We talked earlier about identifying a “market void” that your product can fill. In theory, if your company has the core strengths to create a product or service that can fill a market void, or in other words, a currently unfilled category of customer need, where there is no current solution, you have either redefined or created a new product category from a market void.” This situation allows for strong pricing and resulting strong profits.

If your product solution can fill this previously unfilled market void or create a new “solution category” you and your product group instantly become market leaders in a particular “customer need” category. This new leadership, resulting from producing a positive outcome for customers in what was previously a market void, allows you to make the rules. You create the pricing structure and also the standards of product performance and service.

Filling a known market void clearly enhances and accelerates your company’s ability to provide a new product group to a newly redefined or created target market. It is then up to your team to maintain this “niche market” leadership with quick market expansion. Your obvious goal will be to assume leadership in achieving all performance outcomes and exceed customer expectations for service. If you can achieve this within what was previously a market void, you have a chance to come from nowhere and be a market leader.

Minnetonka’s soft soap accomplished this in the late 70’s. They created a new category of products by marketing a liquid soap dispensed from a stylish container that basically replaced bar soap in both the bathroom and the kitchen. This small entrepreneurial company went from 0 to market leader almost overnight. The product “my pillow” was an entrepreneurial company that did almost the same thing in capturing quick market share. It is funny but both of these example companies are located in Minnesota. There must be entrepreneurial DNA in the water there...or should I say the ice.

The best example of the creation of a new market category by filling a market void was the introduction of both the cell phone and the iPad.



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For years, Motorola made two-way radios. There were few people that ever felt there was a market void for a personal mobile communications device. It is now one of the largest and most profitable markets in the world. Motorola owned this market void at first and then lost it to others.

**One thing unique about market voids is that in many cases customers don't know they exist.** The manipulation of new product technology created the market void that the new product then fills. Years ago, when Texas Instrument salesmen were selling electronic calculating equipment, there wasn't any customer who said "I sure wish you could sell me a small computer that could calculate and do much more."

In many, if not most cases, the market void is identified by the manufacturer of various products, who has the core strengths in-house and is always on the lookout for how to use the company's core strengths to create and then fill market voids with products and services. We encourage internal brainstorming sessions directed toward identifying a market void in any industry.

The companies that gather, protect, nurture and maintain their core strengths in order to develop new products many times are the companies that identify market voids and then exploit them with their new products or services. It is not a bad idea to have company brain storming sessions to try to see how your core strengths and technologies (if that is appropriate for your business) can be creatively applied to a need that has either been recently identified or an industrial or consumer application that has the potential to be filled once there is an awareness of the opportunity to use your new product. The idea here, is to create and promote a market void that only you have an exciting product to satisfy.

Consider that P&G's floating Ivory Soap, accidentally discovered due to a mistake in putting too much air in the mixture, filled a huge market void for consumers that could never locate the soap in the dirty bath water is a prime example of filling a market void. Filling a market void can happen by accident or by intention.

You can discover many market voids that were identified by, and then filled by, companies that not only had core strengths in product development but also great vision, creativity and market knowledge.

No matter what size your company is, or what core strengths you think you possess, I would invite you to lead your team in some down-stream "out of the box" thinking about what market voids your company's core strengths would allow you to fill.



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