

Thinking About Expanding Your Market? Ten Questions To Answer First By Olin Thompson

Application software companies frequently talk about expanding their markets. Often this idea represents wishful thinking rather than a well-thought out rationale and business plan. If your business is discussing expanding its market, here are 10 questions to answer before you decide.

What is a new market?

A new market is any market where you are not currently making a concerted effort to gain business. You may be doing some business in that market “by accident” but you are not actively expending resources toward that specific source of business. The new market may be a geographic area (expanding to Europe when you are currently only selling in the US) , a new industry (selling to hotels when you have only sold to hospitals), or a new application for existing products (can you sell your GPS device to the vending industry?). The key issue is that a new market requires an investment to reach a new set of customers.

We frequently see enthusiasm for a new market. Often the new market is exciting because the existing markets are seen as difficult and the new market as “easy”. Companies are often victims of “incestuous consensus” where a small group becomes insulated from the outside realities and sit around agreeing with each other. For example, they might decide that a new market is easy without having the external information to know it.

Ten Questions to Ask Before You Decide

1. What is your business objective in expanding your market and why?

As with any business decision, you need to have an objective in entering the new market. It may be a short term objective (we need more revenue next quarter) or a strategic objective (our biggest competitor is in Europe and we are afraid that it will cause our US sales to erode if we are not there also). The objective should be explicit and have defined revenue and time expectations. “We want to sell to the automotive market” is a wish, not an objective. “We expect 10% of our revenue to come from the automotive market by 2006” is an objective.

Why do you want to expand? Growth, stability, avoiding obsolescence of your existing offering, and many other reasons exist. Know why you want to reach this objective in terms of business metrics, opportunities and risk.

2. Could you reach your business objective in your existing market?

Investing in your existing market can be an alternative to expansion. Breaking into a new market is always hard. Unless your existing market has reached saturation, it may be easier to reach your objective in your existing market. Selling where you have references, knowledge, product, reputation, etc. will be easier than selling in a new market.

When answering this question, ask, "Why can't we expand in our existing market?" New markets are exciting and excitement can often cause companies to put their hopes in new markets without fully exploring their own.

3. Do you have a realistic understanding of the resources it will take to be successful in this new market?

Initially, Market expansion always looks easier than it will be. Do not underestimate what is required to be successful. It will take a larger investment, more people and more time than you think. How can you get a realistic estimate? Make a detailed rollout plan with input and estimates from all the executives involved.

Identify the important milestones and challenges. For example, if you do not get the first sale on schedule, will other activities need to be deferred? Talk to others who have tried this type of expansion. Always put some contingency time and money into the plan, as you will need it.

4. Do you have the domain knowledge, product, business processes, etc. to succeed in this new market?

Once you make a plan, it may become obvious that you do not have all the resources that you need.

For a geographic expansion, you will need people in the new location to be successful. You will need existing staff to support these remote people. Trainers, sales support and executives will have to visit the new geography frequently if you expect success. Post sales resources will have to be either in the new geography or loaned from existing resources before the first sale.

If you are expanding into a new industry or new application, do you have people who know the new target market and its needs? Is your product ready? It is rare that a product can be sold into a new application or industry with no modification or extension. You may be able to defer this investment until you get your first sale, but you will be making the already difficult task of getting the first sale even more challenging and increasing the odds of failure.

5. Who are the competitors in the new market and why will you beat them?

Every market has entrenched competitors. Who will you be facing in the new market? How do they sell? How do they win? Before you make the decision on a new market, understand the competition in that market and how you can

beat it. Frequently, we hear executives tell us that a market is “wide open” but this is frequently a sign that they have not truly researched the market.

6. If you go into the new market, will it pull resources from your existing efforts?

This is a trick question. The answer is always yes. But most people answer it with either a “no” or a “not much.” How can you expect the market expansion effort not to consume some of your resources? If the effort is important enough to invest in, you will need some of your existing resources to contribute to success. Any time or resources directed towards the new effort is time taken away from the original effort.

Executives often say, “We will not let our existing staff be distracted.” But how will the new effort succeed then? How will you keep people from doing the “favors” that end up pulling resources from their existing efforts in order to help the expansion? Do not assume that there will be no impact on your existing resources.

7. Will existing revenue take a hit due to your efforts in the new market?

If the answer to the previous question is yes, then the answer to this question will probably be yes as well. Will the VP of sales take her eye off existing revenue objectives due to the market expansion? Will the CEO or others be available for as many calls with the sales staff? Assume that existing revenue will take a hit.

8. How long will it take to get to an acceptable level of business in terms of revenue and profit in the new market?

Market expansion takes time, usually longer than expected. In the beginning many details, such as education and training, finding a new office or even getting new computers or business cards for any new people, can eat into selling time, .

Deals will take longer to close than you are accustomed to. In the new market you have few if any references, no track record, and no credibility. As a new player, you represent a greater risk than the established players. The first few sales will be made to prospects that are willing to take a risk.

Due to a higher cost of sales and frequent discounting at the beginning, profitability develops much more slowly than revenue. Do a forecast of sales, cost and profitability. Then lower the sales forecast, slow down the time for the sale to happen and increase costs. Now how does the new market look?

9. What if it takes longer and cost more than expected?

If it takes longer than expected to reach an acceptable level of business (and it almost always does), do you have the financial resources to wait? Will management have the patience?

On the other hand, if it proves to be too difficult or impossible to gain a

foothold in the new market, will management take decisive action to cut your losses quickly?

10. What will your existing customers and market think about your decision?

Usually, your existing customers and market consider any efforts in a new market with skepticism. They feel deserted, or at least less important. What will this mean to your existing relationships and revenue?

Summary

New markets are often exciting. New markets offer an expansion of the business. With the right planning, investments, and expectations, new markets can be positive for the business. However many companies fail to take a critical eye toward a new market and let excitement overwhelm good business decision-making. Before embarking on a market expansion, ask yourself the hard questions.

About the Author

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