



MANAGEMENT CONSULTANTS
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Effectively Targeting Resources Through Market Opportunity Measurement

By: John L. Hughes Jr.

While every organization would like to believe that it has targeted sales and marketing resources in the most effective way possible, many companies lack the necessary information and techniques to focus their efforts on real market opportunities.

If asked, how would your management team respond to this question: “How do we know whether sales and marketing resources have been targeted effectively in the marketplace?” Would they point to increased sales, greater margins, or perhaps more in-depth analysis related to company goals? It has been our experience that many companies find it difficult to cite actual market opportunities as a rationale for determining where marketing resources are best used.

Is it important to quantify market opportunities?

Most managers will agree that it is important to consider how resources are focused in attempting to maximize their benefit in a given marketplace. However, many companies have not made an effort to tie the process by which resources are targeted to real market opportunities. The failure to sufficiently assess the individual markets a company sells into may often lead to a disorganized marketing effort as well as to missed opportunities.

Developing a system to quantify and forecast market opportunities should be a crucial step in any company’s marketing and sales efforts. Development of an effective business development strategy demands information regarding the real opportunities available in given markets.

Let us suppose a company has two sales regions, the Eastern Region and the Western Region. The two produce roughly equivalent annual sales revenues. Without any market-based information regarding these territories, the organization may rely on its perception or “gut-feel” of the market in rationing out marketing resources.

But now suppose it makes an effort to quantify market potential. If it determines that each territory has approximately the same opportunity, perhaps it makes sense to employ comparable marketing resources for each territory. However, if the Eastern Region has twice the market potential of the Western Region, it could follow that a majority of the resources belong in the Eastern Region. In either case, this company is in a better position to market and sell its products/services with knowledge regarding real market opportunities.

How do organizations quantify their market opportunities?

Historically, when manufacturers and other industry suppliers have attempted to quantify the size of the market(s) they are involved in, they have often relied heavily on trade association data and their own industry experience. These methods, however, can often result in questionable estimates. In the first case, some groups simply poll member companies and do not report the portion of market opportunity represented outside their group. Interpreting the inherent biases can be extremely difficult. In the second case, applying industry experience, while valuable, is also subject to internal biases, and is often built on “existing internal perceptions” as the starting point.

In developing a system designed to quantify or “put hard edges on” a given market’s opportunity, there are several factors to keep in mind. First, econometric modeling should be used in estimating market potential whenever possible. Important economic factors that have an affect in a company’s marketplace must be addressed. Economic variables often considered include:

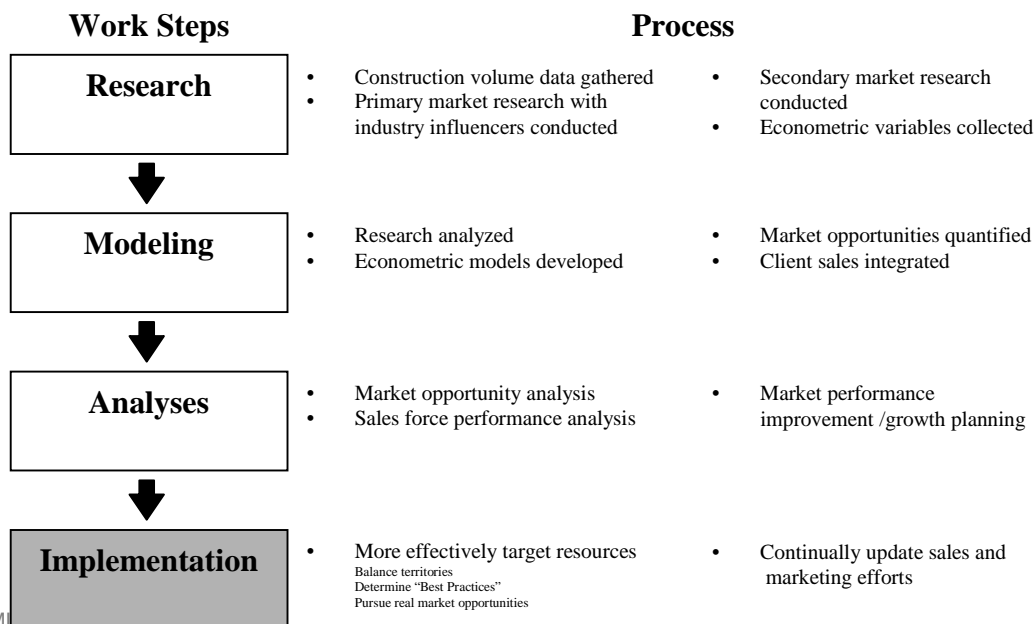
- Population Change
- Income
- Gross National Product
- Employment Change
- Energy Prices
- Interest Rates

Combining these variables with industry-related information in a statistical model adds significantly to the confidence that can be placed in the data computed. In other words, the market potential figures will be much more reliable if they are based on such a model.

Market opportunities should not be examined only on a company-wide, national basis. It is important to identify where market potential is on a tactical, local geographic level. This will allow a company to know more precisely where its real opportunities lie.

Some companies make the mistake of estimating their market opportunities once and then treating the data gathered as something to keep on a bookshelf and to refer to every so often. The process of evaluating the potential available in the marketplace must be viewed as a continuous dynamic activity to be refined and updated periodically as time passes. Factors that affect markets are continually changing and, therefore, opportunities within these markets are continually changing. To be successful, a company must constantly consider whether it is targeting its resources in the best manner possible.

Many companies have found that such a system is most effectively developed by an independent third party. The involvement of an “outsider” helps to ensure objectivity of the data obtained, since the third party does not fall prey to the internal biases that may exist within the company.



What does quantifying market opportunities tell an organization?

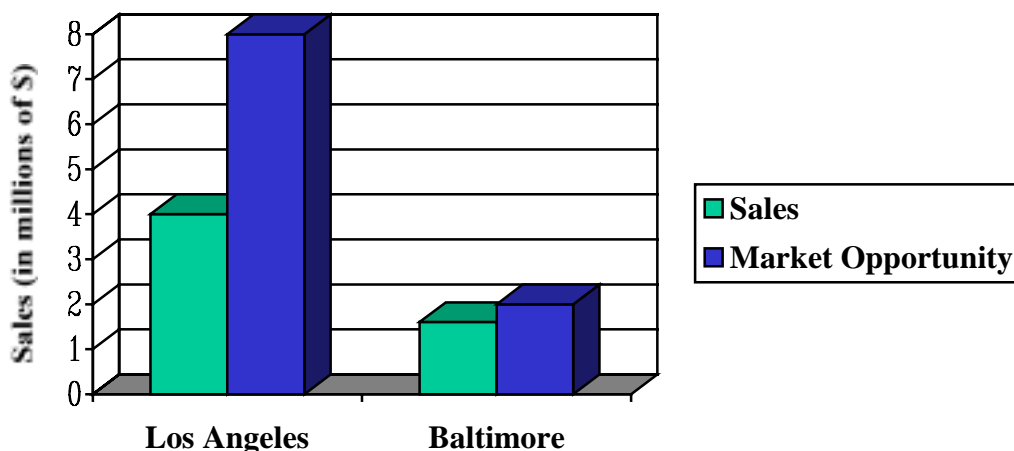
By creating a well-designed system that periodically quantifies the size of its potential markets, a manufacturer exponentially improves its ability to effectively manage the sales and marketing functions within the organization. Specifically, the major benefits of such a system include the following:

- Sales performance can be evaluated in a more objective, fair manner.
- “Best of Class” sales performance can be identified, and the specific skills transferred, to “raise the bar” for the entire sales network
- Sales management can more confidently create sales plans and set sales goals.
- Companies can more effectively target its resources toward real market opportunities.
- Companies can examine what factors affect sales representatives’ ability to gain market share.
- Companies can identify prescriptive training and development needs within the sales and marketing functions of an organization.

Sales Management Improvement

Several of the benefits of a system that quantifies real market opportunities fall under the umbrella of *sales management improvement*. The first involves the improved ability of sales management to measure the performance of its sales force and distribution channels. Without such a system, companies will often reward sales representatives or their channel partners for selling a large volume or increasing their sales. Perceptions of how “a good job” is defined are changed by including market opportunity into the sales performance evaluation process. In a sense, the playing field is leveled for sales reps, distributors, and others with sales performance responsibilities.

Who Is Doing The Best Job?



For instance, assume a manufacturer has a sales rep in Los Angeles who sells \$4 million in a given year and another rep in Baltimore that sells \$1.6 million. If this company does not include market potential as part of the evaluation of these sales reps, it appears that the rep in Los Angeles is doing the better job of the two. Now let’s assume that the manufacturer quantifies the market opportunities available in these territories and finds that the opportunity market in Los Angeles is \$8 million whereas the figure in

Baltimore is \$2 million. It is apparent that the Baltimore rep is capturing a far greater portion of his/her opportunity market than the Los Angeles rep. This information gives sales management the chance to evaluate sales performance in a consistent manner and to identify opportunities for skills transfers and training needs.

Armed with this market-based knowledge, companies can successfully improve the sales planning and goal setting functions for both the entire company as well as those responsible for sales and marketing on a local basis. Sales plans and goals of these companies can be based on the actual potential available in the market rather than general estimates or the subjective "gut-feel" of management.

Some companies find it useful to tie the refined forecast instrument to compensation for both sales management and individual sales reps. This practice is designed to reward outstanding performance within a given set of markets. For example, some organizations will reward territory managers with incentives related to what portion of their available market they have obtained.

Marketing Management Improvement

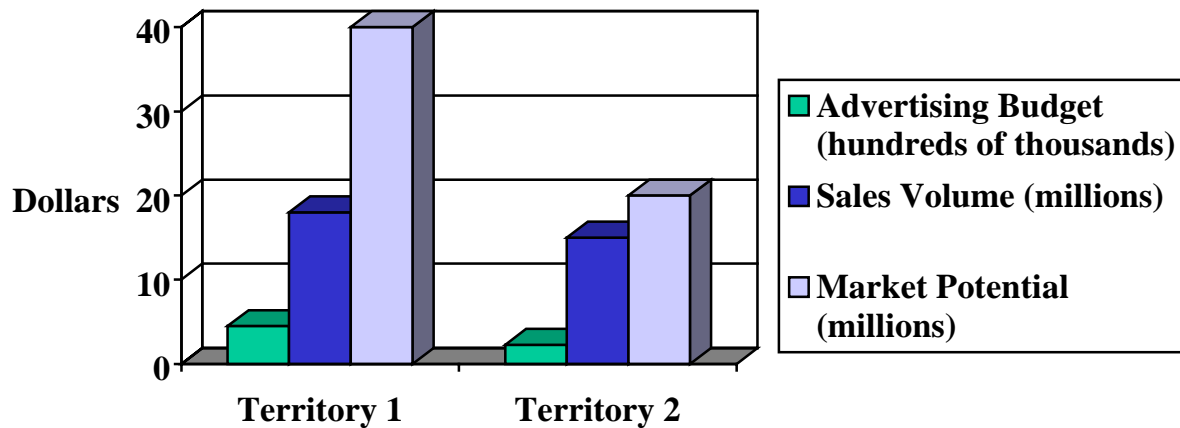
Other benefits mentioned relate to *marketing management improvement*. Once a company can measure market opportunities that lie within a given market, marketing can target resources more effectively. Consideration of resource allocations may include advertising dollars, new programs, new products, or new personnel. Many companies find that, after measuring opportunity markets initially, it is necessary for them to realign their sales or distribution territories in an attempt to balance each territory's market potential. This realignment is designed to keep territory market size manageable for the resources allocated to each territory.

The ability of a manufacturer to forecast market opportunity is extremely beneficial in determining the company's future marketing direction. It allows the organization an opportunity to see what areas of its markets are growing and what areas are experiencing decline. Additionally, trends can be analyzed once market potential has been computed and forecast. These trends can be used to estimate future sales for a given market as well.

Also, a manufacturer can examine what factors affect (and what factors do not affect) those with sales responsibility to gain market share by quantifying market potential. Factors that have been found to drive sales in certain situations include:

- Market Size
- Pricing of Products
- Competitive Strategy, Policy, and Pricing of Products
- Quality of Products
- Advertising and Promotional Programs
- Sales Coverage
- Customer Perceptions
- Regulations and Codes

What Drives Success?



For instance, a manufacturer wants to evaluate alternative advertising approaches in two of its territories. Territory 1 has sales of \$18 million and Territory 2 has sales of \$15 million. Territory 1 has invested heavily in advertising, spending \$450,000. Territory 2 has chosen to only invest \$225,000 in advertising. On the surface, it may appear that advertising has a significant impact on sales generated by these territories. However, suppose the manufacturer quantifies the market opportunities available to these territories and finds that the potential market for Territory 1 is \$40 million while the figure for Territory 2 is \$20 million. While Territory 1 has generated higher sales revenues and invested more heavily in advertising, Territory 2 has captured a greater portion of its market. Perhaps the increased advertising investment in Territory 1 was a good investment; perhaps not. By quantifying market opportunities, manufacturers can more effectively gauge the impact of potentially significant factors.

Often, the information provided by this type of system will lead to further analysis geared towards improvement of the sales and marketing functions of an organization. Areas that companies sometimes choose to examine include:

- Customer Buying Practices
- Territory Balancing
- Competitor Analysis
- Sales/Market Planning
- Sales Training
- Management Training
- SWOT Analysis
- Internal Sales and Marketing Effectiveness
- Compensation and Incentive Planning

In summary, while most manufacturers are concerned with the targeting of sales and marketing resources, few have effectively employed the potential of econometric modeling to quantifiably develop true local market opportunities. The implementation of a statistical model-based system that estimates market potential will lead to the following major benefits:

- More objective, equitable sales performance evaluations
- Sales performance improvement through “Best of Class” identification and skills transferring

- More reliable sales planning and goal setting
- Better targeting of marketing resources toward real market opportunities
- Identification of driving factors of sales growth
- Identification of prescriptive actions within the sales and marketing functions of the organization

The manufacturers that are most successful in their fields in the future will employ this type of system, using statistical modeling that relies on key economic factors. This process will enable these companies to significantly improve the sales and marketing management functions within their organizations while also helping them to market and sell their products in the most effective manner possible.