Getting to Market Share Threshold #1: 10%-15%

Introduction

The first article in the “Growth is Now Your Responsibility” series provides the context for understanding the unique growth challenges companies face to reach different market share levels where profit peaks —10%-15%, 25%-30%, 40%-45% and up to 70% (market share ceiling). The strategies required to get to the next profitable threshold depend on the position the company is starting from. This article focuses on strategies to reach the first market share threshold: 10%-15%.

This first profit peak in a market represents the point where new market entrants have carved out a sustainable secondary or tertiary market position. These companies have achieved critical mass in both end user awareness of and experience with their brand. They have also achieved enough channel coverage to meet end user service and logistics expectations.

Market Coverage is the Key to Threshold #1

The biggest challenge for low share players or new market entrants is to build market coverage. This is exacerbated by the fact that you will receive little help to do this.

- Many end users are not aware of (or don’t understand) the brand offering and its value. They are unwilling to take the risk of trying your product for the first time, and take the path of least resistance and select brands they know
- The channel network for a low share player is not yet developed. For channel partners that have enlisted early to carry a new brand, your position in the channel is most likely tertiary. While channels have the product available, they revert to a role of “order taker” rather than “order creator.” In other words, your product will be bought—not sold

Companies that successfully reach market share threshold #1 employ a dual approach to overcome the market coverage barrier.

Coverage Strategy #1: Channel. There is often a wide array of channel types available to serve a market, as illustrated below for building materials.

Channel Focus

Specialty ———————————————————— Broadline

Specialty Wholesaler

Urban Lumber Yard

Wholesale Showroom

Rural Lumber Yard

Home Center

Contractor with Storefront

#1: 10%-15% Market Coverage

The successful low share player understands what types of channels are needed to deliver effective market coverage for their solution. By contrast, companies that stumble in building market coverage are often guilty of taking the first channel available. Choosing the wrong type of channel can preclude entry into the channel you really need for effective market coverage.

Selecting the right channel requires answering a few questions.

- Does the channel already sell to the types of customers and decision makers that you are trying to reach?
- What is the channel's overall product mix and where does your product fit?
- Does the channel have the capability (and willingness) to deliver the service and support needed to retain your customers?
- Can you capture "mind share" for your brand so that sales reps will proactively offer your product when it fits?

Once you have identified the channel type that best answers these questions, a compelling offering needs to be fashioned to enlist the desired channel partners. Carefully building the right network will make it easier for end users to access your product and accelerate movement to the #1 market threshold.

Coverage Strategy #2: End User Trial. Channel partners for low share brands are much more likely to be "order takers" than "order creators." At best, they may generate end user leads for you to pursue.

The supplier bears the responsibility to convert end user leads into customers. The most effective way to do this is through programs designed to induce end user trials. Programs designed to support an initial purchase have proven to have low returns (e.g., <15% repeat purchases). Instead, successful end user conversion programs are designed to induce "habit." By supporting end users through ~5 trial purchases, we have found that long term conversion rates rise to over 70%.

Depending on the target end user, trial program components could include economic incentives (e.g., discounted pricing for trial), bundling (e.g., free accessories), training and certification, site visits and installation support, etc.

Market coverage strategies typically start with a focus on a market niche. Whether the niche is defined as a geographic market segment (e.g., region; urban vs. rural), end user segment (e.g., customer type or size), or leverage competencies of the company (e.g., manufacture white label product for a complementary supplier), niche strategies provide a new player with a "reason for being." Any of these niche opportunities can provide a sustainable position from which to build market coverage to achieve a 10%-15% share of a broader market.

Lynn Cullotta Consulting has spent decades helping clients devise profitable growth strategies to get to the next market share level. Now that growth is the responsibility of your team, we invite you to schedule time with us to talk about the market share position you are starting from and the challenges in getting to where you want to go. Please reach out to Carl Cullotta at cpc@lynncullotta.com or 224.239.2525.