

Grow through new customers or markets

Introduction

This is the second of 3 items on approaches to growing a business. It suggests a number of practical measures for achieving growth through new customers. It helps you to choose between, and explains how to go about, the two options available, namely appealing to a new group of customers or entering a new region or country to serve an existing group of customers. Finally, it summarises what you should do to pursue this approach if it is right for your business.

Is this for you?

Growth through new customers or markets may be appropriate for your business if:

- * There is insufficient potential within your existing customer base to meet your financial aspirations
- * You are able and willing to invest in winning new customers or entering a new market
- * You have adequate sales and marketing capabilities to carry the process through

There are advantages in selling your products or services to new customers or into new markets.

- * You can extract more value from your existing products.
- * You will become less dependent on your existing key customers by widening your customer base.
- * You may find that continually pursuing new business provides a challenge that adds dynamism to your business and your staff.

It is worth just remembering that winning business from a new customer can cost up to 10 times more than from an existing one. These extra costs come in the form of market research, promotion or marketing communications, extra administration, meetings, and additional sales resources. If there is still realisable growth through existing customers, think twice before taking on extra risks and costs inherent in this approach.

In pursuing growth through new customers and markets, make sure to

- * consider the investment required
- * be comfortable with the timing and levels of the expected revenue stream
- * keep up service standards to your existing customers - they are ultimately paying for your new investments.

Before you start

Before you start planning about taking on new customers or markets, it pays to do some initial thinking. Here are 3 questions that will provide a valuable foundation for whichever approach you ultimately decide to adopt.



1. Why are you interested in new customers or markets?

It is important to understand just why you want to take on new customers or markets rather than pursuing other options for growth. Perhaps you need them:

- * to replace lost customers
- * to achieve your objectives for growth
- * to reduce reliance on existing customers
- * to increase profits by selling the same, or slightly modified, product to more customers

2. Which of your business capabilities do you want to exploit and therefore what customer needs will they best satisfy?

In situations like these it helps to understand which of your business capabilities you are trying to exploit. You can use them to identify needs that you will be able to satisfy efficiently and to stand out from the competition in the process. For example:

Capability	Customer needs satisfied
Tailored product design	Individual requirements that cannot be met by mass production
Friendly and efficient service	Want to deal with 'real' people rather than answer machines and paperwork
High levels of craftsmanship	Desire to recognised by others as being discerning in tastes
5 year guarantee on all products	Reassurance of trust in supplier

For more tips on understanding your capabilities and developing your unique selling proposition, look at our '10-minute Unique Selling Proposition'.

3. What is your objective?

Understanding what is driving you to seek new customers or markets will help you to set a specific objective. Specific objectives will help to determine appropriate actions. Examples of specific objectives are:

'To achieve 10% of annual sales from new customer group x by December 2003'

'To win 5 accounts worth over £20K annually in new market y by December 2003'

'To achieve sales averaging £10 per order to 1,000 new customers in customer group z by December 2003'



What are the options for growth through new customers?

There are 2 ways that you can take on new customers:

1. A new group of customers, usually in the same geographical market that you are already operating in. This may require new distribution or delivery but should be similar to your current methods. For example, if you specialise in a particular industrial process, say material coatings, a new market may be toy manufacturers or automotive companies where your experience in material coatings improves or provide a cost-effective substitute to an existing process.
2. A similar group of customers in another market (region or country). This will probably require new routes to market. For example, a high precision castings manufacturer based in Britain or Germany could take on an agent to promote and distribute castings in Sweden.

There is also a third way of taking on new customers. That is a combined approach of taking on a new group of customers in a new market. This is considerably higher risk than either of the other 2 options above since you will have to do both things simultaneously. However, the principles described above remain the same and, if you do adopt this higher risk option, you should apply these basic principles.

New customers

Not all customers in the market are the same. Therefore, as the old adage goes, if you try to please everyone you'll end up pleasing no one.

So it makes sense to try to group customers who have similar characteristics and needs. This will enable you to target and tailor your products and services to meet the particular requirements of a given group, and so too any communication you have with them. For example, a manufacturer of small economy cars designed for city use may not want to target well-off families living in rural areas who may be more interested in sports utility vehicles.

1. What customer groups are out there?

Customers can be grouped in many ways. Some common ways of grouping them are by:

- * The type of need or the products/services they buy, for example a particular feature that is important within the overall product or service package
- * How frequently they buy
- * Some of the behaviours they exhibit when they are buying, such as always buying for the cheapest available, or the most expensive, or best quality, or newest model, etc.

By looking at your market, you should be able to identify some coarse categories into which you can place different customers. For more information on grouping customers, take a look at our '10-minute target customer list'.



2. How are these customer groups served?

It is then important to understand how these customer groups are served. How do customers get to know about the goods or services on offer? Where do they go to buy them? How are the goods or services distributed or delivered? What after-sales support is provided?

3. How much competitor activity is there?

You also need to understand how well served these groups are and how much competitive activity there is. A head-on battle with a major competitor is simply going to deplete your limited resources and distract you from your goal of winning new customers. Sometimes a head-on battle is unavoidable but at least you can be prepared for what is coming.

For more information on getting to grips with competitors, please see our '10-minutes to get to grip with your competitors'.

4. Which customer group is for us?

Having identified the customer groups available and understood how they are served, it is then time to decide which group you are going to target.

List your business objectives and score your alternative groupings against them. The simplest scoring system is 1-3 where 3 is the most attractive. Here is an example:

Objectives	Group A	Group B
Few competitors	1	2
Potential for better margins	2	1
Sales growth potential	2	3
Needs match business capabilities	1	3
Total score	6	9

In this example, the customer group that best meets the business' objectives is B.

New markets

The second way to achieve growth through new customers is to look for a similar customer group to one you are already serving but in another market. By 'market' we mean a different geographical market from those in which your existing customers are concentrated, for example, national rather than regional or international rather than national.

Moving into a new market is more risky than simply taking on new customers because of factors such as finding new channels to market (such as new distributors or agents). If you are going into a new foreign market, you may also have to deal in a



foreign language and culture, deal with different government agencies and paperwork systems and come to terms with different laws.

Here are some questions to structure your thinking and planning:

1. What's happening in the market?

If you favour entering a completely new market where you have no track record, it will prove invaluable to do some market research, even if only to get feedback from some potential customers. The emphasis here should be to identify how your new product or service compares with those of other suppliers that are currently meeting customers' needs. You can significantly reduce your risk through even simple research. For a Directors' Briefing on researching your market, look at the Business Hotline publication MA 12).

Research should address such questions as:

- * How much of this market can we expect to take?
- * How are these markets served?
- * How much competitor activity is there? For more information, see '10-minutes to get to grips with competitors'.
- * What are the major obstacles to entry?

2. Which market is for us?

Having identified the markets available and understood how they are served, it is then time to decide which market you are going to target. You can use the same method for deciding which market as you used for deciding which customer groups (see above).

3. How do we enter the market?

Described below are 3 market entry strategies that small and medium sized businesses often use. Remember that customers in a new geographic market are likely to be loyal to local suppliers so you will have to be offering something very special.

Through agents or distributors

The lowest risk, and probably lowest cost, approach is to reach the new market through agents or distributors. They should know the market and have established relationships with customers. It is then a case of arriving at an agreement that both parties are happy with. The disadvantages of this approach are that the intermediary may take a large slice of the margins and you have little control over how much they sell and to whom.

Direct to customers

The second strategy is to trade direct with customers. This could work well in another region of a national market or a 'niche' market. A niche market is



specialised, where customers may be happy to deal over national boundaries to obtain the product they want. However, it is usually more difficult to use this approach in a foreign market but much will depend on the nature of the buying process. Direct exporting would work well where customers are not looking for high levels of local support before and after the purchase.

Collaboration

The third strategy is to work with other companies already operating in your target market. This may take the form of a joint venture, strategic alliance or licensing agreement. It is particularly suitable for a supplier who wishes to tap into an established customer base or distribution network that is already being serviced by another company such as a local manufacturer. The purpose of this strategy is to reduce entry costs, which will be balanced by a reduction in the margins you would have obtained had you been developing customer relationships alone.

4. How do we find the right partners?

Finding the right partner organisation to work with is critical to your success in a new market. This is particularly the case in the early stages of entry into foreign markets. Here are some sources of information on markets and prospective partners.

Source	Where to get it	Description
DTI	www.dti.gov.uk	Directories, statistical information and published market research on your chosen market plus best practice guides.
Trade Partners UK	www.tradepartners.gov.uk	Comprehensive support package for companies looking to export, including details of target markets abroad.
UK Centre for Exporting Excellence	www.export.co.uk	Practical support and advice on export matters, including details of trade fairs, as well as inward and outward trade missions.

What should you do now?

1. Decide which of your business capabilities do you want to exploit through new customers or in new markets.



2. Decide which option for growth you are going to take:
 - * New customer group in an existing geographical market
 - * An existing customer group in a new geographical market
3. Set a target or objective for the amount of extra sales you will achieve.
4. If you are targeting a similar customer group in a new market, make sure that you understand for that group, possibly through market research:
 - * Who buys - individuals for personal needs or purchasing staff for an organisation.
 - * Who makes the decision and who influences - often more than five people influence the decision, yet rarely are more than two recognised by the supplier.
 - * Why they buy your product or service - a customer buying a product or service from you is also buying into a relationship with your business, so quality of service also counts.
 - * Why they buy from you - common sense says that this is because you deliver well in relation to other suppliers on the things your customer's value most, but how confident are you that this is the case?
5. Think about the ways you are going to achieve your objective. For more information on the techniques you can use, take a look at the 10-minute briefing series on the following:
 - * Identify your 'unique selling proposition' to customers
 - * Decide your 'marketing mix'
 - * Decide your 'promotional mix'
 - * Plan 'customer service'
 - * 'Target customers'
 - * Produce communications to attract 'new customers'
 - * Researching your markets (See Business Hotline publication MA 12)
 - * Export financing (See Business Hotline publication FI 8)

