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Secrets to Successful New Market Entry

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By Fran Grigsby

Every new market is a new venture. Whether a company is going international or finding a new vertical market, every new customer group presents requires planning and execution to deal with the unique challenges of that market.

New market entry is the process of finding and capturing new customers. Many of the tactics that companies use are unproductive.

Typically, companies take huge risks without realizing it, and consciously avoid risks that could pay off enormously. In my years as a corporate executive, I learned that there are times when it pays to plan and times where it makes sense to dive in and make mistakes.

Executives need to take what I call a challenge-based approach: Each new market has a specific set of challenges and your approach has to be tailored to those challenges.

There are several principles of this challenged-based approach. Some of these principles sound counterintuitive, but they help companies from early stage to large plan aggressively and win in spite of the unexpected.

•Treat each new market like a start-up

•Avoid new market panic

•Gut feel works if you get the facts

•Succeed by making mistakes

•Bet big but stay focused

•Invest in your stakeholders

Treat each new market like a start-up

Ellen (not her real name) is an executive who worked for a company with 30 years of experience executing projects for the US government, and no experience selling to industry or technology. "Our job is to sell consulting projects to the technology industry," Ellen said, describing her newly-formed group.

"They assigned four of us to sell four million dollars this year. We don't have any leads yet, but they think customers will talk to us because we are well-known in international development. But we have to use the company's existing marketing and operations and pay our own way – it's all up to us." Despite their hopes, target customers did not recognize this as relevant experience, and the new group was closed after only one significant sale.

No brand new company would begin operations with no business plan, no support and marketing prepared for a different industry. But executives expanding into new markets, like Ellen's superiors, make this mistake all the time. They treat new markets as extensions of what they've done already. They assume that their current sales force, channels and marketing, with minor tweaks, can succeed easily with new customers. This leads them to under-fund, under-plan and under-support new ventures.

Every new market must be evaluated for its potential and for the resources it will require.

Avoid new market panic

"We should have started looking at our next market much earlier, but we have been busy just running the business." Many of my client conversations begin with this sheepish statement. Companies need to begin investigating new markets when their revenues are growing or stable, but too many wait until they are in trouble, and then look for a new market to rescue them. This creates a panic situation:

- Resources are scarce, and there is not enough money for effective marketing or research
- The company won't survive unless the new market succeeds
- Executives demand quick results while employees believe that success is impossible
- Energy and risk-taking evaporate because people are afraid to fail

Growing from a shrinking base can be done, but it defies the laws of physics. Available cash and a will to win are among the most important assets in new market success. Starting from weakness means that both are scarce.

Sometimes there is no option to entering a new market from a low revenue base. Early-stage companies, for example, frequently find that their first market does not yield enough revenue to support the company. GigaNet, an early stage interconnect company, found that its initial market did not develop as quickly as needed. GigaNet reset its marketing and sales to focus on a growing market, obtained new funding and created momentum that enabled the company's sale to Emulex Corporation.

If your company is approaching panic, think about these options:

•Before you enter a new market, generate growth in your current market.

•Find a partner whose products or services you can resell in your current base

•Add a new channel

•Put incentives in place that increase cross-selling to current customers

The company will still need to find a new market, but these actions will stabilize the company and provide resources to fund your growth.

If you must find new customers when your position is weak, evaluate your current sales and strengths.

What sales have you already made outside of your target market? Can you sell to smaller companies in the same target market? What are your strongest channels, and how can they help? These will help you identify the easiest new market. Then ask if that market will bring the growth the company needs.

Go outside the company for money to enter the market. Trying to enter a new market without enough cash is just likely to turn a downward trend into a long slow death. Cash gives you the freedom to take the necessary risks to win.

Gut feel works if you get the facts

Most companies enter new markets for reasons that have nothing to do with rational or financial analysis:

•"This just feels like the right market."

•"My friend George is CEO at Company X so he will open the door."

•"We've sold one project to a hospital so let's go into the medical market"

•"Our largest stockholder thinks we should sell to banks."

While upfront market research is the best way to decide which market to pursue, even illogical choices can turn out successfully. The biggest determinants of new market success are whether a business has good information about their chosen market and whether they use it.

Research can provide a wide variety of information for the growing company

For a plan to enter the small business market, a telecommunications company used market research to understand which customers would be most receptive to their services, which services would be most profitable, and what types of advertising were most appealing. They also used market research to understand competitors' products and strategies, to watch how they made decisions and reacted to direct marketing. This comprehensive research not only helped them develop high quality business plans. It also drove the design of advertising, marketing collateral, and the launch plan for their small business services.

Market research will not eliminate risk or answer every question. Judgment calls and even wild guesses DO have their place in strategy decisions. But where facts are available, and the cost of being wrong is high, a spirit of inquiry always pays off.

Succeed by making mistakes

Just get out there and do it. There is no way to ensure that a new market will develop in the way that you expect. Helmuth Karl Bernhard von Moltke, Prussian army chief of staff in the late 1800s, understood market entry better than many market planners. His approach is summarized in two statements: "No battle plan survives contact with the enemy" and "War is a matter of expedients". He instructed his troops to make plans for all the possible alternatives for how a battle might develop. He did not imagine that every possible development could be forecast, or that every battle would go in his favor. But he understood that an army that knew how to respond to a wide range of events could, in the face of the unexpected, do the expedient thing and learn from the experience.

In the same way, a business can plan its market entry so that each step is designed for the biggest possible win and the smallest possible cost. A French company preparing to enter the US market learned that its initial foray did not develop as desired. Rather than declare defeat, the company placed a small team in the US to respond to leads identified in France, and to learn more about the US market. The company maintained its capacity to respond to market opportunities, and built a strong foundation for a later launch in the US.

Bet big but stay focused

In marketing, the price to pay for thinking small is higher than the price to pay for thinking big. Given the investment required in entering a new market, a company should aim for the biggest market that it can reasonably expect to master. Paradoxically, aiming high minimizes your risk. A small target market puts a cap on your maximum revenue and profit. A large target market means that this strategy can yield the highest revenue possible.

Another requirement is that this market have a clear definition and boundaries. A focused market means that the company can develop one market strategy that covers the entire market. These two characteristics – big and focused – ensure that the smallest possible investment will yield the largest possible new market payoff.

There is one caution about the choice of a big, focused market. No matter how big the target market, the cost of entering it must not sink the company. EuroDisney was a struggle and an embarrassing failure for the Disney Company, but never came close to shutting the company down.

Motorola could absorb the gigantic costs of Iridium, a satellite phone system that eventually declared bankruptcy, because it had a constellation of high growth and cash cow businesses that absorbed the costs. Google's Book Search project, which plans to scan and make searchable over 32 million books, is estimated to cost $800 million dollars. That would be a huge investment for most companies but not a significant percentage of Google's market capitalization.

Even small companies can create a buffer against failed new market ventures if they keep costs from outrunning the company's ability to support the venture.

Invest in your stakeholders

Another kind of insurance against market failure is the good will and cooperation of stakeholders. An aggressive approach to new markets will lead to failures as well as successes. But leaders who do a good job planning and positioning build the confidence of stockholders, employees and others, and inspire them to protect the new venture while it develops.

One critical stakeholder group is existing product lines in the company. These must be positioned to provide cash for the developing market – and to stretch for higher growth if new revenue is slow in coming. For this reason, the best new market entry is designed to bring benefits to the entire organization – for example, new channels, increased stock price or customer excitement – that make it easier to sell the whole portfolio. Apple's iPhone is an excellent example of a new market venture that is bringing value to the entire company. Excitement over this product and Apple's usual creative advertising are reinforcing Apple's image and enhancing the market for all its products.

The bottom line of new market entry is informed risk. Both are equally important. Companies should take the biggest risks they can afford, with the best information they can gather. Then you can tailor your plan and your execution to the specific challenges of the market.

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