

FastTrac[®] GrowthVenture[™]

ENTREPRENEUR MANUAL

MAXIMIZING THE
GROWTH POTENTIAL
OF YOUR BUSINESS



TAKE CHARGE OF YOUR BUSINESS[®]

A program of the Kauffman Foundation of Kansas City

Ewing Marion
KAUFFMAN
Foundation



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Growth Analysis

It'd be great if entrepreneurship were a clearly marked road with signs telling you where each lane would take you and how long it would take to get there, when there is a curve or dead end ahead, and speed limits so you don't go too fast and get in trouble.

In this module, you will learn the signs that indicate your readiness for growth and what pace is appropriate for your business. You'll also learn how to research and evaluate opportunities so you know what direction you want to take your business.

Growth analysis includes basic structures for assessing the direction and potential of your business, but it is a flexible process that can be adapted to suit the kind of growth your company most needs. The questions, checklists, and action steps in this module will help clarify your options for growth and focus on the best opportunities.



Shifting Gears to Grow

John Friess and his brother, Mark, launched wired.MD in 2000. Their initial product was streamMed Patient Education Solution, a series of streaming videos describing diagnoses, procedures, and treatment plans for airing in doctors' waiting and examining rooms. Their mission: to empower healthcare professionals to improve patients' healthcare experience and reduce costs by making patient education more engaging, effective, and efficient to deliver. Their vision: to educate the masses.

They started their business by selling streamMed to doctors' practices. Their first sign that they needed a different means to grow their business was a financial one. When they began to get a handle on their marketing budget, they determined it was too costly. They found that not only

were doctors a hard sell, but also that the trade shows to target them were expensive. It was costing them \$110 to \$125 for each qualified lead.

Then, while pitching a medical group at a women's health center, they were directed down the hall to a health resource center. It featured an Internet-connected computer that patients could use for accessing information. Eureka! With just some slight engineering tweaks, their product would be perfect for such an environment. With the interest exhibited in the health resource center, they realized that a more effective and scalable strategy was selling a video patient education software product that patients could access directly over the Internet—in health resource centers, libraries, or even on home computers.

So they shifted gears—halting all marketing efforts aimed at doctors' practices directly to reach the new health resource center audience. With a new marketing focus, they adjusted both the product and the message. In changing gears, however, they understood that some things don't change. Brand identities, color schemes and corporate culture begin to belong to the entity and come to be identified with it. They hired two people to make cold calls all day, everyday, from free Internet databases. They created direct mail materials and direct e-mail campaigns. All of these efforts helped bring down the cost-per-qualified lead to \$25 from \$110 to \$125.

In addition, the Freiss brothers have refined their goals. With their new business model, their customers are medical libraries, health-resource centers, and small to large physician groups. What is important, they've determined, is carving out a definitive chunk of the market—specifically, licensing streamMed in one manner or another to 3,000 physicians, which is equal to one half of one percent of the total marketplace. That amount of market share would place them in the ranks of highly viable healthcare information software companies, opening up many doors for their future.



In the case of wired.MD, the Freiss brothers discovered the best way to grow was to target a new market, tweak the product, and adjust their marketing and distribution. With this revised business model, they are growing their business by working hard and smart.

Entrepreneurs measure growth in different ways: company size, market share, and profits. They all, however, seek growth for the same reason—to create a business with a sustainable future. All successful businesses grow, though some grow faster than others.

The key to successful growth is understanding how much growth your business can support. In this module you will first evaluate growth readiness. Next you will turn your attention towards the industry to evaluate its potential for growth. Finally, you will identify and screen opportunities for growth, conducting market research to evaluate them. This research will help you determine the market potential by providing information about your customer, target market, and industry. In Module 3 you will determine your business strategy and throughout the rest of the program develop a plan to implement it.

The Growth Analysis Map on p. 34 illustrates a framework to guide your evaluation of growth opportunities and strategies. An overriding consideration in the entire process is to establish growth strategies that align with the vision and goals for your business.

With your vision and goals from Module 1 clearly in mind, you will follow a four-step process to determine a growth strategy for your business:

1. Evaluate Growth Indicators
2. Assess Industry Potential
3. Identify and Screen Growth Opportunities
4. Determine Market Potential

Evaluate Growth Indicators

In this step, you will take a close look at two key indicators of your business's ability to undertake growth—its financial strength and stage of growth. Businesses that are still struggling to maintain profitability or are in the early growth phase will benefit from different growth strategies than businesses that have achieved financial stability and are more mature. Determining these factors up front will help you make realistic plans for your business's future.

Financial Performance

Your business's financial strength is of particular importance in assessing growth readiness. Growth requires money to purchase additional equipment, invest in added staff, and support the rest of the growing operations. To determine if your business has internal sources of cash to invest in growth, you will need to review historical and projected financial statements on a regular and ongoing basis. By assessing the numbers, you can see where you've been, where you are going, and what it will take to get you there.

Information on your business's sales, profits, and cash flow are key. Conducting a preliminary analysis of net profit and its components will provide you with a greater understanding of the current financial condition of your business. It will also tell you if you need to limit your plans for growth because of financial constraints.

TIP In his book *You Have to be a Little Crazy, The Truth About Starting and Growing Your Business*, Barry Moltz cautions entrepreneurs to learn lessons from business growth in the 1990s when incremental growth of prior years was replaced by growth at warp speed. Many technology businesses quickly learned that speed can kill.

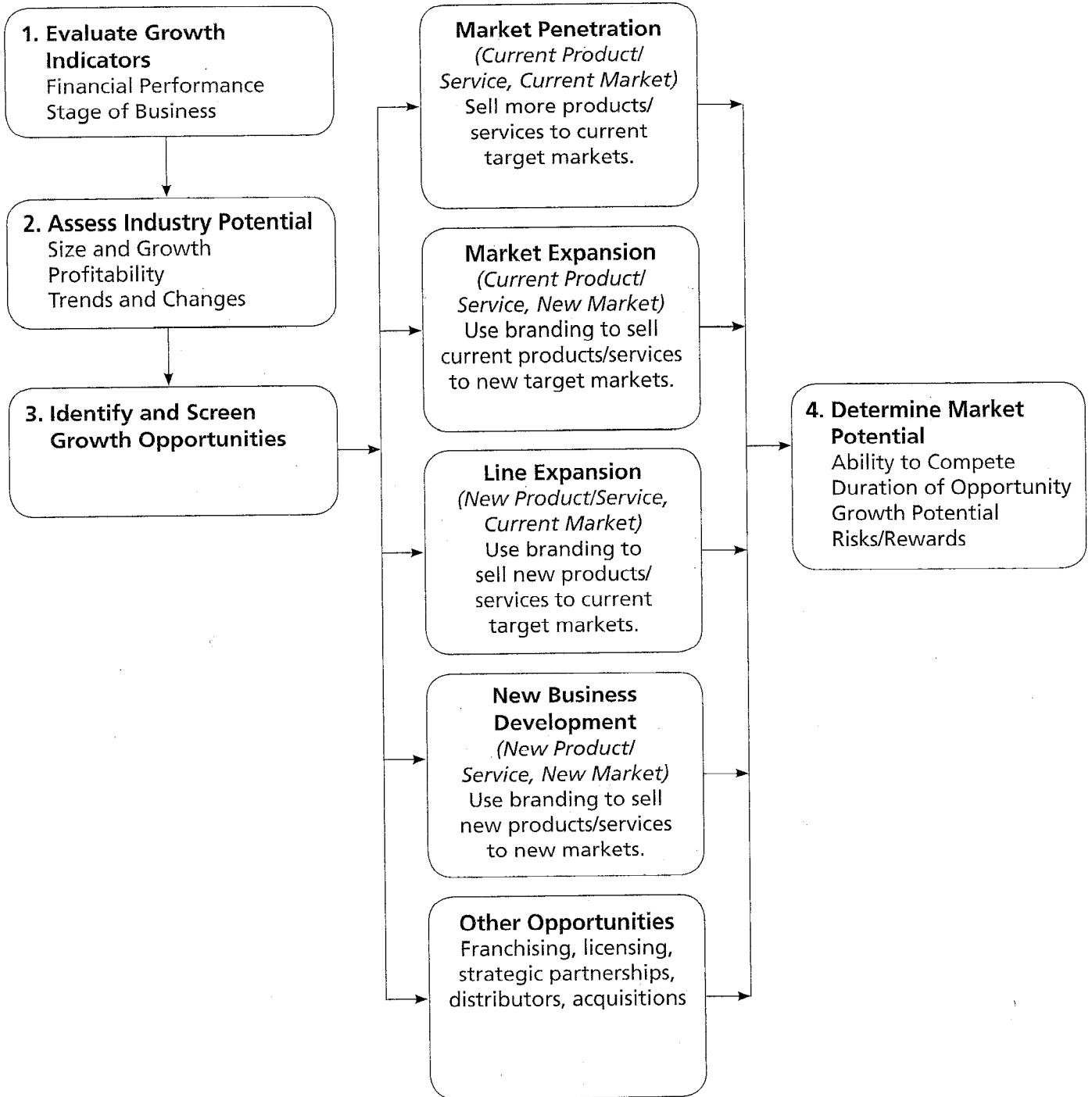
Growth Analysis

1. Evaluate Growth Indicators
 - Financial Performance
 - Stage of Business
2. Assess Industry Potential
3. Identify and Screen Growth Opportunities
4. Determine Market Potential



Growth Analysis Map

Vision, Mission, Goals



One key consideration is the amount of cash generated from business operations available to support growth. Alternatively, does your business have the ability to obtain external funding? What about contingency planning? If cash from current operations were invested in growth, would there be sufficient additional resources available to offset unforeseen challenges that might also require a cash infusion?

Growth financing is typically the easiest to obtain from external sources, but it comes with costs: banks earn interest on loans and investors expect a strong return on their investment and may insist upon ownership in the business to ensure it. "Investors can make your stomach twist and turn," says entrepreneur Natalie Tessler, founder and owner of Spa Space, a state-of-the-art day spa located in downtown Chicago. "On one hand you feel incredibly grateful to these people. They are facilitating and enabling you to live out your dream." Tessler continues, "On the other hand, knowing that they are out there is bedeviling because you feel indebted and concerned about any failure and how they'll respond to it. It's really scary to think that I could let them down."

You will continue this financial assessment in the financial modules, 4 and 9, comparing your financial information with norms for similar-sized businesses within your industry—a process known as *benchmarking*. You can find this information through industry trade organizations and financial statement guides, such as Dun & Bradstreet and Risk Management Association (RMA).

Stage of Business

Growth, in some form, can occur at every stage of your business. The types of opportunities that are realistically available to you may be influenced by where your business is in its growth and development. Businesses go through similar, predictable stages; however, the length of time for each stage can vary considerably from one business to another. Your business's stage of development will have a significant impact on the type and extent of growth appropriate to pursue. It will also have a major influence on the types of funding available to you.

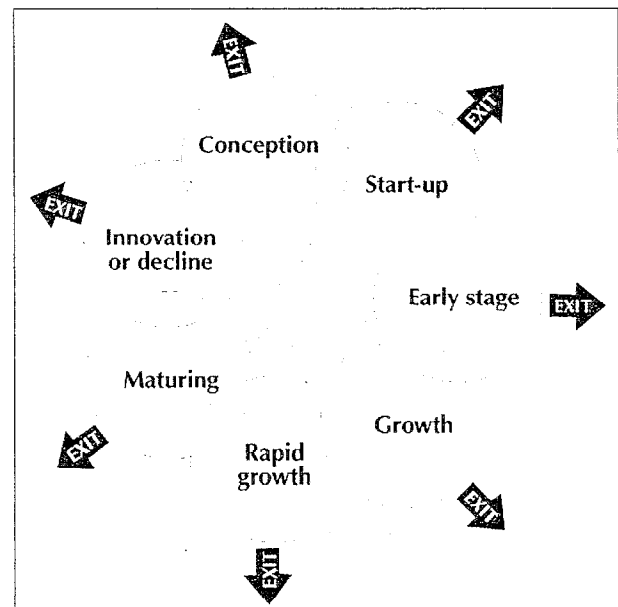
A business's growth pattern typically follows these stages:

- **Conception** – Entrepreneurs determine the feasibility of the new business by evaluating the needs of the market, the potential profitability, and the availability of needed resources.
- **Start-up** – The business is launched and cash is usually tight. Sales are typically inconsistent at best, seldom meeting the entrepreneur's expectations. Entrepreneurs modify products or services and experiment with different market penetration tactics. Resources are scarce and must be used judiciously.
- **Early stage** – Customer responses validate the business concept and marketing efforts, but the business struggles to find its competitive advantage. All activities are focused on increasing sales.
- **Growth** – Sales and profits are increasing as a result of new customers and expanding markets. Cash flow, staffing, and developing systems are issues because of the costs and considerations of growth. Minor modifications to the business strategy may be warranted as entrepreneurs learn more about the market and customer response.

TIP Before you expand your business, make sure you can afford it. Many a business has grown itself out of business.

TIP Many businesses do not follow a direct path through these stages but move in and out of them during the life of the business.

Stages of Business





TIP To realize the economies of scale from accumulated sales growth, a thorough cost analysis of the business should be conducted periodically.

- **Rapid growth** – The business outpaces the industry growth rates and establishes itself as a viable concern. Sales increase rapidly. Some entrepreneurs decide to sell their business at this stage.
- **Maturity** – Sales hit their highest point or may level off as a result of saturated or very competitive markets. Profits decrease as prices are lowered to compete. Customer retention and managing resources are key. Adoption of a new strategy to maintain historical growth trends is important if continued business growth is desired.
- **Innovation or decline** – Sales and profits start or continue their descent. Without innovation, the business declines. New products or services and new markets are needed to recapture the historical growth trends of the business.

Now it is time to look at growth indicators in your business to help determine what level and type of growth your business is capable of supporting. To do so, complete *Business Growth Indicators* with the information you have available for your business.



Business Growth Indicators

Step 1 Review my financial information. A review of your financial statements will help you begin assessing your financial strength in terms of sales, profits, and cash flow. Make this review prior to examining the various growth strategies available to your business as it will help you identify the financial constraints that may impact your decisions.

a. Sales for the last twelve months and last two years

Current Year by Month	1	2	3	4	5	6			
Sales Amount									
Current Year by Month	7	8	9	10	11	12	Total Current Year	Total Last Year	Total Two Years Ago
Sales Amount									

b. Sales by major category for last twelve months and last two years

Current Year by Month	1	2	3	4	5	6			
1.									
Current Year by Month	7	8	9	10	11	12	Total Current Year	Total Last Year	Total Two Years Ago
1.									
Current Year by Month	1	2	3	4	5	6			
2.									
Current Year by Month	7	8	9	10	11	12	Total Current Year	Total Last Year	Total Two Years Ago
2.									



Business Growth Indicators continued

Current Year by Month	1	2	3	4	5	6			
3.									
Current Year by Month	7	8	9	10	11	12	Total Current Year	Total Last Year	Total Two Years Ago
3.									

c. Net Profit last twelve months and last two years

Current Year by Month	1	2	3	4	5	6			
Current Year by Month	7	8	9	10	11	12	Total Current Year	Total Last Year	Total Two Years Ago

d. Reviewing sales and profits for the last two years, what sales and/or profit trends, if any, can you identify?

e. Are internal sources of funds available for pursuing growth opportunities? Yes No
 Review historical Cash Flow Statement(s), your current cash balance, and the availability of a line of credit to determine your answer. Prior to determining what cash is available for growth, project your cash flow for the next twelve months so you know what you will need to operate your business.

f. Are you able to obtain external sources of funds for pursuing growth opportunities at this time?
 Yes No If yes, identify potential sources and amounts you know of right now:

Step 2 Determine my business's stage of growth. Based on your answers in Step 1, is your business in the start-up, early stage, growth, rapid growth, maturity, or innovation/decline phase?



Growth Analysis

1. Evaluate Growth Indicators
2. Assess Industry Potential
 - Size and Growth
 - Profitability
 - Trends and Changes
3. Identify and Screen Growth Opportunities
4. Determine Market Potential

TIP In a non-expanding market, growth of market share is the only strategy to increasing sales and profits. In other words, you have to attract customers away from your competitors.

TIP As the marketplace changes, entrepreneurs must adjust their strategic choices and refine their positions in the market.

Assess Industry Potential

Prior to assessing individual growth strategies, you will first want to look at the big picture, that of the industry as a whole, and assess its growth potential. In determining industry potential, key considerations include its current size and rate of growth as well as profitability characteristics and trends.

Size and Growth

Knowing the current size of your industry can help you place your business in a larger context and assess its potential for growth. Industries go through phases similar to businesses—start-up, early stage, growth, rapid growth, maturity, and innovation or decline. The following questions will help you determine if your industry offers the growth potential you seek. Action Step 2.1 Assess Industry Potential will provide additional information and guidance to complete this industry research.

- How many companies similar to yours exist nationally, regionally, and locally?
- How does the current size of the industry compare to historical figures from five or ten years ago? Are sales growing? Leveling off? Declining?
- What are the total dollars spent, or the total units consumed, by buyers nationally, regionally, and locally?

The answers to these questions can help you determine your future prospects. Examining the industry's history and current size may reveal a great deal about the stability of opportunities in your industry. You might compare the size of the industry five years ago with today to determine whether it is growing or shrinking locally, regionally, or nationally. You might compare historical profit margins with today to see if the industry is showing growth in profitability. Such comparisons are particularly helpful in established industries such as finance and retail because history reflects how these industries have grown over time.

Profitability

Identifying profit margins typical of your industry can help you assess your business's potential to succeed and make money. Some industries are notorious for their small profit margins, while others are much more lucrative. These questions can help you determine profit margins that you can use as benchmarks:

- What are the industry's standards for Gross Margins and Net Profit percentages?
- What factors affect Gross Margins and Net Profits?

Trends and Changes

The marketplace has changed dramatically over the last ten years and will continue to change. These changes affect the way business is conducted and the choices customers have to access information or buy products and services. For example with the Internet and wireless computing, businesses may be virtual and on the other side of the world from their customers.

Understanding trends specific to your industry can help you plan and predict the future. These trends may be based on seasonality, economic fluctuations, or changing customer demographics and psychographics. Other industries may also have a direct or indirect impact upon yours. For instance, bank interest rate increases or decreases affect investment and real estate industries. What other industries affect sales in your industry?



For example, a new-home builder has noted that a current and emerging trend within the home construction industry is to build homes with either a ranch style or reverse story and a half floor plan in response to the preferences and needs of the aging baby boomers. This market is now in their fifties and prefer homes with the master bedroom on the first floor, a large kitchen for family get-togethers, and a relatively small yard for ease of maintenance.

As this trend will continue into the next decade, the builder has added several floor plans to accommodate this target market. Continual monitoring of demographic changes within the local community will allow the builder to provide floor plans to meet consumer preferences. That, along with monitoring key indicators such as interest rates, new home sales, and local growth rates will help the builder determine the product mix (various floor plans to offer) and forecast sales.

Identify and Screen Growth Opportunities

Now that you have looked at key indicators within your business and at your industry as a whole, you are ready to focus more specifically on growth opportunities for your business. Growth opportunities abound, but how can you learn about them? What information should you seek concerning potential opportunities? And where can you find the information you need?

Talking with customers, suppliers, and industry associates as well as reading to learn about your business's environment can provide a wealth of helpful information about possible growth opportunities. In addition to the following ideas which will help you begin to gather information to identify opportunities, more specific guidelines for market research will be given throughout the Action Steps:

- **Commercial research** – Leading sources include Dun & Bradstreet and Risk Management Associates (RMA). Business reference librarians at your local library or those at James J. Hill Reference Library (www.HillSearch.org) can provide assistance in finding these and additional research sources. Many commercial research companies charge a fee for services.
- **Surveys, questionnaires, and focus groups** – Conduct surveys, questionnaires, or focus groups to obtain information on consumer preferences, satisfaction, demographics, and lifestyle changes. Read *A Closer Look @ Primary Research* on pp. 70 – 71 for information on how to conduct surveys, questionnaires, and focus groups.



HillSearch Members

To find industry growth and trends, check newspaper and trade journal articles. In HillSearch, simply click on "Research an Industry," then "Search industry trade journals" to search in EBSCO or ABI/Inform, databases with access to thousands of key industry journals. In those databases, simply enter in key terms for your industry and "growth" or "trends" to find topical information.

- **Trade resources** – Scan trade journals, browse in the library, attend trade shows, and talk to people in your industry to discover what is new and exciting. Ask questions about other organizations, markets, products, services, and challenges.
- **Marketplace** – Scour the marketplace to find products and services already in circulation and ask industry people, customers, and suppliers about present and possible rivals.

Growth Analysis

1. Evaluate Growth Indicators
2. Assess Industry Potential
3. Identify and Screen Growth Opportunities
4. Determine Market Potential

TIP Take time to look at your business through the eyes of your key customers to identify ways to improve your relationship, solve their problems before the competition does, and grow your business.



Tip Consider involving your whole management team and/or bringing in a marketing consultant to facilitate the process of identifying and evaluating growth opportunities.

- **Demographic changes** – Population statistics change more rapidly today than in the past. For example, Peter Francese of American Demographics®, Inc., points out that the fastest-growing age group in America is people eighty-five years and older. For this market, assisted-living centers, recreational activities, and delivery services are fertile ground for new opportunities.



HillSearch Members

Find demographic trends under “Find Market Research,” then select MarketResearch.com Academic. Once in the database, click on “Demographics,” then click “Published” to sort demographic reports by date. Here you’ll find nuggets on demographic and consumer trends.

Thinking Beyond “Research”

Many times opportunities occur because entrepreneurs engage in activities that stretch beyond traditional ideas of research. Entrepreneurs have their eyes and ears open for trends and changes that might present an opportunity for them and their businesses. The following are additional behaviors that can help you identify opportunities:

Tip You can see a lot by just observing.
—Yogi Berra

Engage in people watching – Watching people’s behavior and listening to conversations provide ideas on needs and desires.

Use the Internet – Online information provides a great source for the latest information in various industries. Entrepreneurs spot new trends on the Internet, exchange information on electronic bulletin boards, and shop various e-commerce sites. Helpful online resources include the James J. Hill Reference Library and the Kauffman Foundation’s eVenturing™ at www.eVenturing.org.

Tip One study revealed that innovators often spend as much as a third of their business day just reading newspapers, trade publications, and magazines.

Read constantly – Read publications outside of your own industry as well as major metropolitan newspapers and local business journals which cover community developments and trends in local markets to find what is different, new, and exciting.

Tune into your environment – The secret of this technique is watching the media, the Internet, and professional journals for recurring themes and emerging trends that may lead to new products, services, or markets.

Establish a personal network – Successful entrepreneurs build a network of people to serve as mentors and advisers throughout the life of their business. This network provides insights and information concerning the business’s market or industry. You can build such a network through industry and trade associations, business organizations, interactions with service providers (accountants, attorneys, and bankers), suppliers, and key customers.



Industry Trends

What trends did you identify in your Environmental Scan on p. 13 in Module 1?

Which of these merits further research?

What local trends may impact your business?

Once you have compiled some information about growth opportunities in your industry, you can look at the following four basic strategies for growth to see which form the opportunities you have identified will take.

Variations on these growth strategies include franchising, licensing, strategic partnerships, distributors, and acquisitions.

	Current Product/Service	New Product/Service
Current Market	Market Penetration	Line Expansion
New Market	Market Expansion	New Product Development

Market Penetration (Current Product/Service, Current Market)

Growing the business by penetrating its market more thoroughly is typically the first step a business takes to grow. Your experience with your business's current markets increases the odds of succeeding using this growth strategy. Wise entrepreneurs carefully assess what untapped sales remain.

If answers to the questions in *Market Penetration Opportunities* indicate that growth opportunities still exist via market penetration, identify ways to eliminate internal barriers to sales and increase promotional and sales efforts to sell more to current customers or to sell to new customers in your current target markets. This growth strategy is particularly appropriate for start-up and early stage businesses. Keeping current customers satisfied is much easier and less costly than finding and cultivating new ones. For an example of one entrepreneur's market penetration goal, read FMSI's story on the following page.

Growth Analysis

1. Evaluate Growth Indicators
2. Assess Industry Potential
3. Identify and Screen Growth Opportunities
 - Market Penetration
 - Market Expansion
 - Line Expansion
 - New Business Development
4. Determine Market Potential



A Bold Goal

Financial Management Solutions, Inc. (FMSI) is gearing up to double its revenues for the upcoming year. "A bold goal, but a doable one," says W. Michael Scott, co-founder of the Atlanta company that provides performance-management information services to help banks and credit unions schedule tellers, lower costs, and increase productivity.

A new marketing campaign is in the works, but first, FMSI plans to survey current clients from the past two years to better understand why they chose FMSI. That information will be used to craft the campaign and to improve FMSI's products and services.

To further prepare for its new "big, audacious goal," FMSI created a formal sales plan detailing individual and incremental steps needed to reach the magic number by the end of the year. As part of the plan, each salesperson knows what to do—including telephone calls to prospective clients and the number of demonstrations and closures required each month.

Still, Scott understands the importance of their existing client base. "We need to have clients as successful as possible because that makes us successful."



Market Penetration Opportunities

Answer these questions to help you determine if you should consider growing by focusing on increasing market penetration.

Are sales increasing as compared to last year? Yes No

Two years ago? Yes No Three years ago? Yes No

What is your sales growth trend and how does it compare to the sales growth trend in your industry?

What is your market share (if known)? Is your market share increasing or decreasing? Can it be increased?

Are there additional customers in your market that you are not reaching, and could you target them?

How can you increase sales to current customers?

How can you sell to more customers in your current market?



Market Expansion (Current Product/Service, New Market)

Market expansion is an attractive strategy if you determine that sales to current customers and markets have been maximized. One restaurant owner grew her business by adding a second market—private catering. She is also considering a third market of selling signature dessert items through local grocery stores.



Market Expansion Opportunities

Answer these questions to help you determine if you should consider growing by expanding to new markets.

What markets am I currently reaching?

What other markets exist for my product/services?

Which potential markets are easiest to reach?

Which potential markets offer the greatest sales and growth opportunities?

Consider which markets would be easiest for you to reach in light of your knowledge, experience, and contacts. A property management company that purchases run-down homes, remodels them, and either sells or rents them carefully analyzed their markets. Recognizing that their skills could be applied to commercial real estate as well, they began purchasing older office buildings, remodeling them, and renting out office space.

Cash flow and profits and/or the ability to finance growth from external sources are usually required to expand to new markets. Advertising and marketing efforts can be costly. However, with the advances in communications, technology, and transportation, many entrepreneurs have successfully broken into previously untapped markets at all levels—from local to global markets. Tere Zubizarreta and Zubi Advertising found success when she focused on a new market.



Tuning in to Demographics

Latina entrepreneur Tere Zubizarreta, founder and president of Zubi Advertising, began her career working exclusively on real estate advertising until a downturn in the market helped her realize it was time to reconsider her opportunities for growth.

Her evaluation led her to a new market. "I decided to focus exclusively on advertising to the rapidly growing Hispanic market—my market. My first client was *The Miami Herald's* Hispanic paper, then called *El Miami Herald*. This obviously helped me gain credibility when I made pitches for new business. The rest, as they say, is *historia!*"

This growth strategy paid off big. What was once a one-woman show is now the largest independent Hispanic advertising firm in the United States with over 120 workers and five locations across the country. "With clients such as American Airlines®, Americatel®, Ford Motor Company®, MasterFoods®, and SC Johnson®," says Zubizarreta, "we have a front row seat. There is no better industry in which to analyze the traits and needs of the U.S. Hispanic population than advertising."

Line Expansion (New Product/Service, Current Market)

Growth using a line expansion strategy involves developing and offering new or complementary products to your current market. Customers' needs change over time. The entrepreneur's understanding of customers' needs increases with experience. As one entrepreneur stated, "I started out selling my customers what I thought they needed and ended up selling them what they wanted," which reflects an important skill of successful entrepreneurs—listening and responding to customers.

In addition to listening to current customers, your experience in the marketplace allows you to improve your products or services to satisfy new customers or solve additional customer problems.

TIP Evaluate customers' requests. Consider the sincerity and credibility of the customer making the request. Test the request by running it by other customers to see if you have uncovered sufficient demand for the pursuit.

Adding a service component to your product may allow you to better satisfy customer needs. Services such as delivery, assembly, installation, or product training provide additional value. A small computer retailer and parts store quickly found themselves in the computer repair business. As a result of the relationship they established with their customers, they were the first place the customer called when something went wrong.

Your search for new and innovative products may lead you to invent something new. A word of caution about inventions: new inventions are often a poor vehicle for business growth because of the high cost of research and development and the extreme difficulty in marketing. For every successful invention, thousands of inventions fail to become a profitable product.

New product offerings do not necessarily need to be products that you develop and manufacture yourself. Buying the licensing (or distribution) rights to a well-known product or service may be a way of offering your current customers something new or expanding into new markets. Licensing offers several advantages. It may give you a unique selling advantage over competitors. In many cases, because of perceived value, you can charge a higher price than for similar unlicensed products.

A good source of licensing ideas are trade shows and association meetings where entrepreneurs can meet distributors and sales representatives to learn about potential licensing opportunities and marketing trends. Colleges and universities, corporations, and nonprofit research institutes are also resources for licensing information.

Offering a new product or service to your existing market takes advantage of the reputation and relationships you have already established. In addition, your experience and knowledge of the target market greatly increases the odds that the new product or service will succeed. Businesses in the growth and maturity stage are apt to consider this strategy.



Line Expansion Opportunities

Answer these questions to help you determine if you need new or complementary products/services to grow or revitalize your offering.

Are sales flat or decreasing? Yes No

Is market share flat or decreasing? Yes No

Does my customer feedback offer any hints to explain this trend? My employee feedback?

What customer requests have I had in the last year or two?

What are my competitors offering in these markets?



A Slight Shifting

"As you consider your business's area of expertise, also consider the most closely aligned variations," says entrepreneur Rebecca Smith, founder and president of the A.D. Morgan Corporation.

"A 'slight shifting' is really a simple concept," she continues. "For example, the expertise of the A.D. Morgan Corporation is the construction of commercial and public-use facilities. In addition to constructing new facilities, one closely aligned expertise is an understanding of existing facilities designed for expansions and sizable renovations."

How did this shift help create an opportunity for A.D. Morgan's diversification? "Very simply," says Smith. "We identified that we were offering this service to the clients who retained us for the construction of additions and renovations to their facilities. We also identified other commercial and institutional property owners who needed this type of property evaluation to periodically catalogue the status of their investment as well as guide their development of capital improvement budgets for the future."

Smith points out this "slight shifting" requires very little capital expense. "We utilized our existing expertise and refocused it for a new and diverse client base that otherwise would not be a target market for our mainstream service."

New Business Development (New Product/Service, New Market)

A new business development strategy involves using your business's reputation or other strengths in order to sell new products or services in new markets. This strategy is often pursued after the others have been exhausted. A word of caution—new product or service development may involve a significant learning curve and requires extensive research depending on how far removed the products or services and markets are from your current business.



Product/Service Development Opportunities

Answer these questions to help you determine if new business development is the right strategy for you.

Why am I considering offering a new product/service to new markets? What do I hope to gain?

Have I maximized sales of current products/services?

Have I maximized sales of new products/services to current markets?

Are industry-wide sales flat or declining?

Do I need to diversify?

What will it cost?

How quickly can I take the new product/service to market?



Global Markets

"Diversification is critical if entrepreneurial companies are to dodge inevitable business downturns and thrive," explains entrepreneur Rebecca Herwick, founder, president, and CEO of Global Products—a company which licenses and sells novelties, giftware, and other specialty products.

"When Harley-Davidson® did not renew their apparel license with us, their products constituted 30 percent of our gross sales," says Herwick. "We were devastated but not defeated."

Since that loss, global diversification has taken center stage. In 2000, Global Products expanded its product line and opened a distribution center in Germany for European expansion; a year later, it opened another in Canada. On the drawing board are plans for distribution outlets in Asia and possibly Latin America.

Within five years, international revenue accounted for 6 percent of Global Products' annual revenue. Herwick notes that her company launched its diversification effort from the strength of its distribution system, which "proved to be a buttress against the many obstacles we would face—among them language barriers, a vast amount of paperwork, and a lack of historical data against which to set inventory goals."

Herwick acknowledges that "global expansion is far from the 'natural evolution' I had envisioned. Breaking into and maintaining a presence in our foreign markets has been a formidable challenge."

"My message to entrepreneurs aiming to do the same is simply that global expansion must be managed carefully and intelligently against the backdrop of Murphy's Law, "If anything can go wrong, it probably will."

Other Opportunities

Variations or combinations of the four basic strategies described previously provide a number of other ways to grow your business. Such opportunities may include franchising or licensing your product or service to others, establishing distributors, or partnering with other businesses.

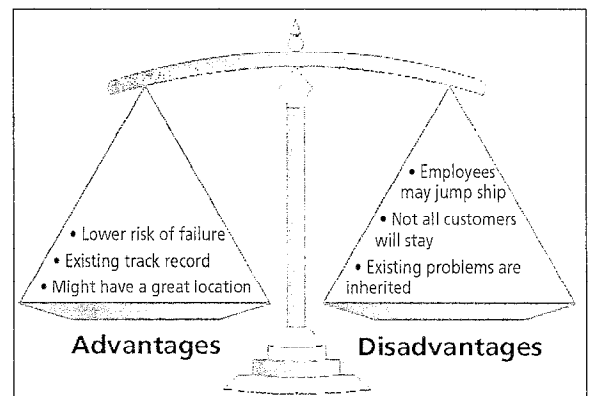
Acquiring either a competitor or business in another market is a way of expanding product or service offerings and reaching current or new markets. Buying an existing business will give you instant customers and visibility. Sales typically come quickly as a great deal of time, effort, and money has already gone into the product and market development. Although it is true that problems can be inherited, an existing business should provide revenue flowing from an established clientele.

The success of purchasing a business as a growth strategy depends a great deal upon how much the buyer ends up paying for the business. A business's true value and its future profit potential can be difficult to determine.

Understanding how to determine the valuation of your business or another business can provide critical information for yourself as well as potential strategic partners, lenders, and investors. There is more than one way to value a business; this process requires the assistance of a competent professional. With this information, you can make informed decisions about specific growth opportunities.

For More Information

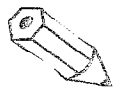
on business valuation
read A Closer Look
@ Valuing a Business at
www.fasttrac.org/toolkits.



Considerations in Buying a Business. Before buying any business, weigh all the personal and business advantages and disadvantages.



Use *Brainstorm and Screen Growth Opportunities* to apply the methods of identifying potential growth opportunities to your business.



Brainstorm and Screen Growth Opportunities

Step 1 Brainstorm growth opportunities. To increase creativity during the brainstorming step, withhold evaluation of ideas at this time. Generate as many ideas as you can in each category.

- a. **Market Penetration (Current Product/Service, Current Market)** How can more sales be made to current customers? How can more customers in the current market be reached?

- b. **Market Expansion (Current Product/Service, New Market)** What new target markets exist for current offerings?

- c. **Line Expansion (New Product/Service, Current Market)** What new or complementary products/services are customers interested in?

- d. **New Business Development (New Product/Service, New Market)** What new products/services can be offered to new markets? Consider your knowledge and expertise in identifying these.

- e. **Other (Extensions of a – d)** What extensions of the concepts above, such as licensing, partnering, or franchising, is your business ready for?

Step 2 Screen opportunities against your vision, mission, and goals. Review your list with a more critical eye and consider which opportunities are consistent with your business's vision, mission, and goals. List matching opportunities on p. 49.

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Brainstorm and Screen Growth Opportunities continued

Step 3 Screen opportunities for a match with business growth indicators on pp. 36 – 37. For those opportunities still remaining after Step 2, consider which ones are appropriate to your business's financial strength and stage of growth. List these opportunities below.

Step 4 Identify growth opportunity(ies) to research and determine market potential. In the list of remaining opportunities, identify those for which you have sufficient interest to assess for market potential. The market research you will conduct later will enable you to evaluate these opportunities for market potential.

Determine Market Potential

Once you have established that an opportunity matches your business's vision, goals, and financial indicators, you are ready to assess its market potential by examining specific key factors. Market research will enable you to more accurately assess the following points:

Ability to compete – Which opportunity offers the potential for you to compete most effectively in the marketplace based on a price/cost advantage or market differentiator? These components of competitive advantage will be discussed in Module 3. If you will not be able to compete effectively, be wary of such an endeavor. Build on your strengths to increase the chances of future successes.

Duration of the opportunity – Will the opportunity last long enough for you to seize it and reap its rewards? Duration is critical to determining attractiveness. For example, a new product or service based on a long-term trend, such as a changing demographic, has an enduring window of opportunity. One based on a fad, such as the latest fashion trend, has a limited life. Another consideration is how long you have before competition might flood the marketplace.

Growth potential – In many cases, long-term growth rather than immediate rewards make one opportunity more attractive than another. An entrepreneur may decide to offer a new product in a growth area rather than pursuing sales of existing products that have minimum growth potential. Is the sales potential sufficient to make it worthwhile? Even if you can dominate a small market, it may not be worth your while.

Growth Analysis

1. Evaluate Growth Indicators
2. Assess Industry Potential
3. Identify and Screen Growth Opportunities
4. Determine Market Potential
 - Ability to Compete
 - Duration of Opportunity
 - Growth Potential
 - Risks/Rewards



Tip One risk of business expansion is taking your eye off your core business.

Risks and rewards – A certain amount of risk is involved in all entrepreneurial ventures, and growth is no different. How much will the opportunity cost to pursue in terms of time, money, and physical resources? What is your potential return on your investment? Are the risks acceptable to you and your business? Do the rewards compensate for the risks?

Keep in mind that typically the risks associated with growth opportunities increase as you move away from products and markets you know into products and markets that are new to you. Costs for researching and developing new products and researching and penetrating new markets will also increase.

You will complete an evaluation of the growth opportunities for your business in Action Step 2.4 Evaluate Growth Opportunities. Later in the program in the financial modules, you will continue this evaluation by determining the financial potential of your growth strategy.

Conducting Market Research

Earlier in the module you considered ways to identify growth opportunities by scanning professional journals, talking with vendors and peers, and surveying customers. Keep in mind that market research is an ongoing process. It isn't just interesting or "nice to know" but essential to your continued success. Because of its importance, you will now look at market research techniques and resources needed for the business planning process and preparing the business plan—skills you will need later in the program. Through market research, you will be able to make decisions based on hard data rather than relying on gut instinct.

Simply stated, market research is the process of gathering, interpreting, and reporting data to take advantage of market opportunities or solve a marketing problem.

Tip Start early to conduct your research. It frequently takes more time than anticipated.

Market Research Process

You may have realized by now that you need different types of information to make informed decisions for your business. The following steps will help you jumpstart your market research process.

Set Research Goals

The first step of the research process, setting research goals, is often overlooked; yet it is essential to the success of your research endeavor. Time spent at this step can save hours down the road by helping you determine the types of research needed. If your research goal is to evaluate a particular growth opportunity for your business, you can ask specifically about the opportunity and the variables that will determine its attractiveness. For instance, if you are considering expanding from a regional to a national market, what variables will impact the likelihood of such a strategy succeeding? Typically both internal and external variables must be examined, such as the market's likely response to this expansion and your organization's ability to implement such a plan.

A research goal can be framed as a statement you are seeking to prove. For example, in researching a growth opportunity—whether to expand from a regional to a national market—your research goal might be "Moving from a regional to national market will increase sales by more than 35 percent." You would then design the research to prove (or disprove) this statement.



Gather and Analyze Data

Once you have clarified your research goal and formulated it into a statement, you are ready to identify the types of information needed to prove your research statement and collect it.

Market research includes two broad categories: primary and secondary. For your business, you will want to conduct both. You can use secondary research first to identify information or data already gathered. Secondary research can be accessed via the Internet, libraries, and trade associations. While extremely helpful, secondary research will not provide all of the information essential to the success of your business, particularly customer reactions and validation of your product or service.

Primary research is obtained by observing or communicating with customers or competitors. You will need to conduct your own primary research regardless of the quantity or quality of the secondary research you discover.

Some of your most valuable market research will be conducted close to home, within your existing business. Analyzing your existing customer base can help you determine who is buying your product or service and who is not. An analysis of your financial data will show you sales trends and growth.

For the growth opportunity that you identified in Step 4 of *Brainstorm and Screen Growth Opportunities* on p. 48, complete your own market research process.



Market Research Process

First review the example. Then plan the market research process for the growth opportunity you are considering.

EXAMPLE Engineering consulting firm, research on growth opportunity

- a. Develop research statement(s). What do you wish to prove?
Moving from a regional to national market will increase sales by more than 35 percent.
- b. For each research statement, identify the information needed by generating a list of questions to be answered to prove or disprove the statement.

Secondary Sources

What are sales in the regional market? What is the sales potential in the national market? What is the strength and number of competitors in the national market? What is sales growth potential regionally and nationally? What is growth for the industry as a whole? What financial and human resources do I have to implement this expansion strategy?

Primary Sources

Among the target audience for the engineering consulting firm in the possible new territories, ask:

- *How likely would you be to purchase consulting services from the engineering consulting firm described in the above concept statement?*
- *How do you typically choose an engineering consulting firm?*
- *Who is involved in making the decision? Who makes the actual selection?*
- *What is the most important factor in determining the success of an engineering consulting project? The second most important factor?*
- *Who are you using now as an engineering consultant?*

**Market Research Process** continued**Market Research**

- a. Develop research statement(s). What do you wish to prove?

- b. For your research statement, identify the information needed by generating a list of questions to be answered to prove or disprove the statement.

Secondary Sources**Primary Sources****Data to Collect**

In your market research to evaluate potential growth opportunities, you will need to research your customers. You must also have a clear understanding of your competitive environment. This information will help in your business planning process and is key in making informed decisions about your business.

Customer Profile

A customer profile provides a clear picture of the type of person or business you are currently serving or planning to serve. This information helps drive your marketing strategy, promotional design, and sales tactics. For example, a tennis racquet manufacturer who is trying to identify the type of players most likely to purchase the product will want to characterize the segments of customers in this market. This manufacturer needs to know demographics of the customers, where the customers purchase their racquets, how often they play, how often they buy a new racquet, how much they pay, what motivates them to choose one racquet over another, and much more.

Typically the customer profile will include customer demographics, buying patterns, and psychographic characteristics, which help determine why customers buy and their lifestyles preferences. For business-to-consumer markets (B2C), the standard tool to search for customer demographic data is zip codes. Industry codes (NAICS and SIC) will give you information on business-to-business (B2B) markets. In Action Step 2.2 Develop My Customer Profile you will identify your customer profile.

TIP The *target market* is a customer group that can be reached through marketing. The *customer profile* is a picture of a typical member of that group.



HillSearch Members

Look for demographic or consumer behavior information in HillSearch trade journal databases. Click on "Find Market Research," then select EBSCO or ABI/Inform from the trade journals page. Once in the database, type in your topic of interest (for example, tennis) and add terms such as demographics or consumers to start piecing together habits and interests of your key customers.

Create a competitor list by clicking on "Create Company Lists," then select D & B (Dun & Bradstreet) for larger competitors and ReferenceUSA for smaller competitors.

Keep up with industry trends by clicking on "Research An Industry" to search industry trade journals in EBSCO or ABI/Inform. Search for an online version of your industry's trade journal or simply type in your industry and "trends."

Competitive Profile

In order to assess the sales potential of various growth opportunities, you will want to find out as much as possible about competitors. You will make a general analysis of your competition in this module and continue by identifying your competitive advantage in Module 3.

Direct Competition – Direct competition for any business includes entities that sell similar products or services in the same target market. Home Depot® and Lowe's® are direct competitors in the home improvement market. H&R Block® and Jackson Hewitt® are direct competitors in the tax preparation market.

More so now than ever before, direct competitors are not always located in the same geographic area as a business. Many businesses are using mail order, telephone sales, or Web sites to sell their products or services. To identify direct competitors, you can use the Yellow Pages® and Internet, or conduct surveys to learn where people currently purchase similar products or services.

TIP If you can prove that your product or service has no competition, it likely has no market.

Indirect Competition – Indirect competitors can be more difficult to identify. The indirect competitor is one that sells different products or services as a primary business but can also fill the need for your product or service. If your business provides marketing consulting to other small businesses, your most likely direct competitors are other marketing consulting firms. But what about specialty and print advertising businesses that consult with clients on their marketing as a part of the sales process, or a nonprofit community resource that offers marketing advice free of charge? You may have more competitors than you think.

Indirect competition can also be the customers, as they may provide the product or service themselves or eliminate it entirely when times are financially tough, especially for services such as housecleaning, lawn-care, or food preparation.

TIP Review emerging trends to determine possible future competitors for your business.

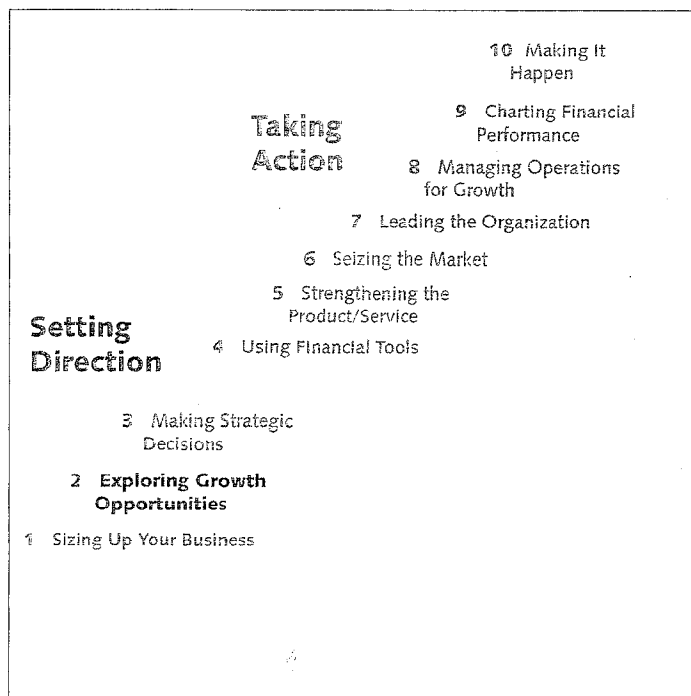
Future Competition – Entrepreneurs should always consider how much time they have before another company begins competing for their existing customers. You may have an advantage in the market today, but others will note this and counteract with a competitive strategy. You will also benefit from anticipating customers' future needs. As time goes by, your customers' needs may change. If your competition is more in tune with their changing needs, then they will steal your market share.

In Action Step 2.3 Analyze My Direct, Indirect, and Future Competition you will identify your competition to prepare for more detailed competitive analysis to be completed in Module 3.



Summary

You can choose from many strategies to grow a business. In this module, you examined various ways to identify growth opportunities and learned to conduct market research to assist you in the evaluation process. You evaluated key indicators within your business to determine the level and type of growth your business is prepared for and considered growth opportunities in relation to their alignment with your vision, mission, and goals. You assessed market potential to determine which growth strategy is the best fit for your business.



Key Things to Remember

- Planning for growth is a critical part of business planning and should be consistent with your business’s vision, mission, and goals.
- When evaluating how and when to grow the business, consider your business’s financial strength and stage of growth.
- Studying markets, industries, competitors, and customers helps you stay abreast of the current business climate and identify opportunities for your business’s growth.
- Put in the time you need to determine what market research is required, set research goals, and commit to gathering the relevant information.
- Analyze growth opportunities from the perspective of sales potential, duration of opportunity, risks, and your ability to compete.

Module 3 will build on the research you are conducting and the opportunities you are evaluating to develop a strategic direction for your business. You will consider your competitive advantage, business model, and exit strategy as you make strategic decisions about your business’s future.



Activity 2a Excell Staffing Services

Analyze various growth opportunities and determine which is most appropriate for a business.

Directions

Step 1 Read the Excell Staffing Services scenario.

Horatio is at a decision point in his business. In the past three years since starting his engineering temporary staffing company, growth had been steady but slow. He presently has approximately twenty engineers placed in small- to medium-sized companies, typically engineering firms, during any given week. Horatio focuses his marketing efforts within his local community, a Midwestern city with a population of approximately 500,000, about two hours from Chicago. It looks like a recent downturn in the local economy, however, would limit growth as some of his clients have begun to lay off engineers rather than seek short- and long-term temporary ones.

One day at the local chamber luncheon, Horatio shared his frustration with Greta, an entrepreneur he has known for the past several years who has her own manufacturing representative agency. Greta commented, "When I feel that sales are too slow or that I have pretty well maximized sales with existing products and customers, I try to take on new product lines. Sometimes this really jumpstarts my sales."

"I don't think that would work for me," Horatio commented. Or would it? Later that evening Horatio started thinking about what Greta had said. "Have I maximized my sales to existing customers? And if I have, then what?" Horatio thought. "What kind of 'new product line,' as Greta called it, can I take on?"

Horatio thought about the ten years' experience he had as an engineer prior to starting his staffing company. Before that he had held a number of jobs in high school and college in various industries and businesses, doing anything from waiting tables and driving a fork lift to general office work. "Maybe I'm not as limited as I think," Horatio told himself. Plus he has the expertise of the members of his infrastructure to help, including his accountant, a marketing consultant, and his banker. His advisory committee also includes the owner of a small manufacturing company and a health care provider.

A quick review of the Yellow Pages® yielded many ideas. Staffing companies existed for every job imaginable. Horatio started his list, which includes:

Accounting/finance	Electronic assembly	Hospitality	Retail
Administrative/clerical	Executive	Information technology	Scientific
Call center staff	Fulfillment	Janitorial	Security
Customer service	Healthcare	Marketing	Warehouse

At the next chamber luncheon, he shared his thoughts with Greta. She was pleased that her comments seemed to have generated new possibilities. "But do you want to stay exclusively in staffing?" she asked. That was another thought to mull over.

"Maybe I'd rather help people find jobs than place people in temporary jobs." Horatio mused to himself on the drive home. "I could add an employment service component to my company and help engineers or others find jobs. I could teach them to write resumes and search for jobs."

"I could also provide outplacement services to companies that are downsizing. Some of the companies that I now work with may be my first customers—I could do outplacement counseling for them," Horatio brainstormed. "Wow! Now I have too many possibilities."

Action Step 2.1 Assess Industry Potential

Research information to determine industry potential.

Conduct preliminary industry research which will be completed when preparing a marketing plan.

Directions

In this action step you will conduct market research to fill your information gaps and evaluate your industry for growth and profit potential. Read the topics and suggested questions in the first column. Then, in the second column, list the information you want to find. In the third column, identify sources for this information. Refer to the sources on *Industry Research*, pp. 59 – 60, to get started.

In conducting your research, do not merely collect information about your industry. Draw conclusions about what the information means to you and your business. Look for patterns, see how it fits together, and integrate this information into your existing knowledge about your business.

Questions	Information	Source(s) of information
<p>Current Size What is the current size of your industry for this product/service? What is the size at the national, regional, state, and local levels? How many dollars are spent annually and/or how many units are consumed annually?</p>		
<p>Growth Potential Is the industry growing and, if so, by how much? Is it stabilizing or declining?</p>		
<p>Profitability Characteristics What are typical gross margins within the industry?</p>		



Action Step 2.1 Assess Industry Potential *continued*

Questions	Information	Source(s) of information
<p>Industry Trends What are the trends in the industry? What effect does technology have on the business?</p>		

Based on your research above, does your industry provide an opportunity for you to reach the sales and profit goals you seek? Explain your answer.

Industry Research

You will want to start your industry research by identifying your industry's North American Industry Classification System (NAICS) or Standard Industrial Classification (SIC) code. To find a NAICS or SIC code, go to the U.S. Census NAICS Web site at www.census.gov/naics. Enter a key word into the search box on the left-hand side of the page that describes your industry or browse codes by clicking the NAICS to SIC / SIC to NAICS button.

Once you've located the relevant industry code(s), use the U.S. Economic Census and related reports as a resource to assist you in gathering industry statistics. You can also use these codes to access other industry information, some of which is grouped by industry type:

Manufacturing – *Manufacturing & Distribution USA* provides statistical information and leading companies in all manufacturing and wholesale industries. The Annual Survey of Manufacturers, available online at www.census.gov/mcd/asm-as1.html, gives more detailed statistics.

Restaurants – The National Restaurant Association publishes a number of resources that provide relevant industry data, including a *Restaurant Industry Forecast* and *Quickservice Restaurant Trends*. Get started online at www.restaurant.org.

Service businesses – The Census produces the Service Annual Survey, online at www.census.gov/econ/www/servmenu.html. Many trade magazines cover specific service industry sectors, such as *ABA Banking Journal*, *Best's Review of Life & Health (Insurance)*, and *Spa Management*.

Retail – Many trade magazines focus on retail, including *Chain Store Age* and *Stores*. Additionally, the National Retail Federation provides some timely information online at www.nrf.com.

Technology businesses – Use information services such as the *American Bulletin of International Technology*, *Selected Business Ventures* (published by General Electric Co.), *Technology Mart*, *Patent Licensing Gazette*, and *The National Technical Information Service*.

Gale Business & Company Resource Center – This online database includes data from publications such as *Market Share Reporter*, *Encyclopedia of American Industries*, *Encyclopedia of Global Industries*, and other industry publications and company directories. Search for specific company information or find market share, industry overviews, company rankings, and articles on just about every industry.

Franchises – You can find lists of franchises for sale, franchising tips, and more at the *Start-Up Journal* from the *Wall Street Journal*. Another useful resource is Franchise Opportunities, an online resource for franchise business opportunities and information, at www.franchiseopportunities.com.

Licensing resources – One resource is the International Licensing Industry Merchandisers' Association (LIMA), which sponsors an annual show in New York City; see their Web site at www.licensing.org. *The Licensing Resource Directory*, published annually by Expocon Management Associates, lists alphabetically more than 3,000 owners and categories of products and services as well as tips, support organizations, consultants, designers, and other professionals specializing in licensing. Other resources include *The Licensing Letter* and *The Licensing Letter Resource Sourcebook* from EPM Communications, which lists the top 4,000 executives involved in the licensing industry. Two other publications relating to the industry are *The Licensing Report*, a weekly newsletter, and *The Licensing Book*, a monthly magazine, from Adventure Publishing.

Additional Governmental Resources

Department of Commerce – Locate information about industry products and services, www.commerce.gov.

Patent and invention resources – Find patent information online through the U.S. Patent & Trademark Office, www.uspto.gov.



Libraries

Industry growth and trends – An easy way to find out industry growth trends is through newspaper and trade journal articles.

Dun & Bradstreet and Standard & Poor's Company Profiles – These resources report financial information and statements from existing businesses. Dun & Bradstreet provides a number of databases, such as the Dun & Bradstreet Million Dollar Database, which lists public and private companies and their annual sales, and Dun & Bradstreet Business Information Reports, which provides information on over 11 million businesses in the United States regarding operations, profitability, and stability. Standard & Poor's Company Profiles also has a number of resources, such as NetAdvantage, which has more in-depth financial information on larger public companies.

The Statistical Abstract of the United States – This resource provides basic information such as income levels, employment figures, industry outputs, and useful market information, and is available online at www.census.gov/statab/www. Many of the charts are summaries of more detailed data; check the source listed for more information.

Encyclopedia of Associations – Trade associations often collect valuable statistics and provide networking information on the industries they represent. Use this encyclopedia to find information on more than 25,000 United States trade associations, including lists of publications available and association contact information including Web sites.

Encyclopedia of Business Information Sources – This encyclopedia lists resources such as trade magazines, databases, handbooks, trade associations, statistics and more for over 1100 business and financial topics. Use this guide to get started finding relevant sources for your industry and market research.

Standard & Poor's Industry Surveys – S & P provides in-depth surveys on over fifty major industries such as apparel & footwear, biotechnology, healthcare, and retailing. The industry surveys are updated four times per year and include information on industry trends, consumers, market share, leading companies, and leading company financials.

Trade and Professional Organizations

Encyclopedia of Associations – See reference above.

American Society of Associations – Get started by searching the **American Society of Association Executives Gateway to Associations** – online at www.asaenet.org/cda/asae/associations_search – for more than 6,000 local and national association Web sites.

Trade publications provide timely information about activities in your industry and are a great way to recognize and capitalize on emerging trends.



HillSearch Members

In HillSearch, simply click on "Research an Industry," then "Search industry trade journals" to search in EBSCO or ABI/Inform, databases with access to thousands of key industry journals. In those databases, simply enter in key terms for your industry and "growth" or "trends" to find topical information.



Action Step 2.2 Develop My Customer Profile

Identify your major customer groups, their distinguishing characteristics, and the market research needed to develop your customer profile.

Directions

Follow the steps below to develop your customer profile.

- A. Identify major customer groups.** Although customers come in all shapes and sizes, generally they can be grouped into broad categories that represent the majority of your buyers. List your major customer groups below and indicate whether they are other businesses (B2B) or consumers (B2C).
- B. Develop customer profiles.** Customers can typically be described through demographic variables (for example, age, gender, geographic location), psychographic variables (why they buy), and buying behaviors (where, when, what, and how they buy). Use the appropriate checklist to help you define a customer profile for each of your major customer groups.

Demographics (age, gender, geographic location)

<i>B2C Customers</i>	<i>B2B Customers</i>
<input type="checkbox"/> Age <input type="checkbox"/> Gender <input type="checkbox"/> Profession <input type="checkbox"/> Education level <input type="checkbox"/> Household income level <input type="checkbox"/> Marital status <input type="checkbox"/> Number of children <input type="checkbox"/> Geographic location <input type="checkbox"/> Other	<input type="checkbox"/> Number of employees <input type="checkbox"/> Organizational structure <input type="checkbox"/> Location of headquarters <input type="checkbox"/> Types of products and services they provide <input type="checkbox"/> Annual revenue <input type="checkbox"/> Number, size, and location of branches <input type="checkbox"/> Year founded <input type="checkbox"/> Other

Psychographics (why they buy)

<i>B2C Customers</i>	<i>B2B Customers</i>
<input type="checkbox"/> Conservative <input type="checkbox"/> Liberal <input type="checkbox"/> Conformist <input type="checkbox"/> Experimental <input type="checkbox"/> Environment-friendly <input type="checkbox"/> Socially conscious <input type="checkbox"/> Growth-oriented <input type="checkbox"/> Fun-loving <input type="checkbox"/> Cutting-edge <input type="checkbox"/> Trend follower <input type="checkbox"/> Fashion-forward <input type="checkbox"/> Family-oriented <input type="checkbox"/> Other	<input type="checkbox"/> Market leader <input type="checkbox"/> Innovative or cutting-edge <input type="checkbox"/> Liberal <input type="checkbox"/> Conservative <input type="checkbox"/> Environment-friendly <input type="checkbox"/> Employee/family-friendly <input type="checkbox"/> Fast growing/adopting new ideas <input type="checkbox"/> Stable/set in their ways <input type="checkbox"/> Other



Action Step 2.2 Develop My Customer Profile continued

<i>B2C Customers</i>	<i>B2B Customers</i>
How many family members are typically in your customers' households?	What growth stage is the company in? (start-up, growth, stable, or decline)
What hobbies and/or sports do your customers enjoy?	What is the type of workforce they employ? (for example, younger, education level, part-time)
What types of entertainment do they enjoy? (for example, movies, theater, opera)	Who is the decision maker in the business you are selling to?
	Do identifiable common characteristics of managers or executives exist?
What publications do they subscribe to?	What is the company's culture?
	What is the management style?
What do they do in their free time?	What trade associations do they belong to?
	What publications do they subscribe to?

Action Step 2.2 Develop My Customer Profile continued

Buying Behaviors (where, when, what, and how they buy)

<i>B2C Customers</i>	<i>B2B Customers</i>
What benefit is the customer looking for?	What benefit is the customer looking for?
How often will they purchase?	How often will they purchase?
What is the customer's decision-making process?	What is the customer's decision-making process?
What factors are most important to your customers: <ul style="list-style-type: none"> <input type="checkbox"/> Price <input type="checkbox"/> Quality <input type="checkbox"/> Brand name recognition <input type="checkbox"/> Customer service <input type="checkbox"/> Variety of services <input type="checkbox"/> Discounts and sales <input type="checkbox"/> Attractiveness of packaging <input type="checkbox"/> Convenience of store location <input type="checkbox"/> Store appearance <input type="checkbox"/> Convenience of product/service use <input type="checkbox"/> Guarantees/Warranties <input type="checkbox"/> Technical support <input type="checkbox"/> Flexible payment terms <input type="checkbox"/> Financing <input type="checkbox"/> Other 	What factors are most important to your customers: <ul style="list-style-type: none"> <input type="checkbox"/> Price <input type="checkbox"/> Quality <input type="checkbox"/> Brand name recognition <input type="checkbox"/> Customer service <input type="checkbox"/> Variety of services <input type="checkbox"/> Discounts and sales <input type="checkbox"/> Attractiveness of packaging <input type="checkbox"/> Convenience of store location <input type="checkbox"/> Store appearance <input type="checkbox"/> Convenience of product/service use <input type="checkbox"/> Guarantees/Warranties <input type="checkbox"/> Technical support <input type="checkbox"/> Flexible payment terms <input type="checkbox"/> Financing <input type="checkbox"/> Other

- C. Identify research needed on major customer groups.** Additional research regarding your customers will help you determine the size of your target market, how to reach potential customers, and how to best sell your products or services. What market research would be helpful on your major customer groups? Note this information in the right-hand column of the Customer Profile Worksheet on p. 64.

**Action Step 2.2** Develop My Customer Profile continued**Customer Profile Worksheet**

Step 1 Identify major customer groups	B2B or B2C?	Step 2 Complete the Customer Profile	Step 3 Identify research needed
EXAMPLE <i>For a shuttle service to and from the airport, the main customer group is businesses whose sales force and other employees make regular business trips.</i>	B2B	<i>Medium to large businesses (over \$1,000,000 in annual revenue) within forty miles of the airport who maintain a traveling national and/or international sales force or development team.</i> <i>Key motives for choosing a shuttle service include reliability and efficiency.</i> <i>They purchase frequently, one or more times a month, typically by telephone.</i>	<i>Need to know the number of businesses in the designated area who fit the customer profile.</i> <i>Library or Internet research of census data for SIC and NAICS codes within a forty-mile radius of the airport would reveal how many businesses meet the criteria.</i>
Customer Group A	B2B or B2C?	Customer Profile A	Research Needed A
Customer Group B	B2B or B2C?	Customer Profile B	Research Needed B
Customer Group C	B2B or B2C?	Customer Profile C	Research Needed C

- D. Conduct research.** Verify the draft customer profile of each customer group above by actually conducting primary and secondary market research indicated in the last column. Refer to the sources on Customer Research, p. 65, to get started.

Customer Research

Check these resources to assist you in gathering information about your customers and developing a customer profile.

Governmental Resources

Census Bureau – The Census Bureau compiles demographics including age, race, population, median income, geographical information, and other useful information. Obtain information from the Census Bureau online at www.census.gov or via telephone at 301-763-INFO (ext. 4636).

Bureau of Labor Statistics Consumer Expenditures Survey – This survey provides information on the spending habits of consumers. Obtain information from the Bureau of Labor Statistics Consumer Expenditures Survey online at www.bls.gov/cex/home.htm or via telephone at (202) 691-6900.



HillSearch Members

Find demographic trends under “Find Market Research” and select “MarketResearch.com Academic.” Once in the database, click on “Demographics” then on “Published” to sort demographic reports by date. Here you’ll find nuggets on demographic and consumer trends.

Libraries

Dun & Bradstreet and Standard & Poor’s Company Profiles – These publications report financial information and statements from existing businesses for B2B customer research. Dun & Bradstreet provides a number of databases, such as the Dun & Bradstreet Million Dollar Database which lists public and private companies and their annual sales. Standard & Poor’s also has a number of resources, such as NetAdvantage which has more in-depth financial information on larger public companies.

The Statistical Abstract of the United States, Encyclopedia of Associations, Encyclopedia of Business Information Sources, Standard & Poor’s Industry Surveys – Listed in the Industry Potential section, these resources also provide helpful information regarding customers.

Trade and Professional Organizations

Visit or become a member of a trade organization that relates to your product, service, or target market. Associations can often provide valuable “insider information” from those who are in a similar industry, which can help you identify customers’ buying patterns, for example. Most members are more than willing to answer your questions or share their stories.



HillSearch Members

Look for demographic or consumer behavior information in HillSearch trade journal databases. Click on “Find Market Research,” then select “EBSCO” or “ABI/Inform” from the trade journals page. Once in the database, type in your topic of interest (for example, “golf”) and add terms such as “demographics” or “consumers” to start piecing together habits and interests of your key customers.

Become a member of a national organization that can provide you with information such as customer surveys, market surveys, and white papers that provide innovative solutions to customer problems and are often used to introduce technology and products. This source can be an inexpensive way to obtain very reliable research data.



Action Step 2.3 Analyze My Direct, Indirect, and Future Competition

Consider your competition and identify what research you will need to conduct to determine if you have a competitive advantage.

Directions

Competition can be defined as any business or situation that takes sales away from your business. Competition can be direct or indirect. To understand your competition, you must identify it and then collect information about it. Follow the steps below.

For market research resources on your competition, refer to the sources listed on Competitive Research, p. 68.

Identify direct competitors. Direct competitors are businesses that sell similar products or services to the same target market. Consider companies located in the same geographic region as well as companies (such as mail order or Internet-based) that can reach your potential customers. List your direct competitors.

Possible direct competitors	Information I will collect on my direct competitors	Research sources I will use

A. Discover indirect competitors. Indirect competitors are businesses that sell products or services that fill the same need as your business. (Flowers and candy can both fill the same need for someone seeking to buy his sweetheart a gift.) List your indirect competitors. This list may be much longer than the direct competitors list. It may be necessary to discuss categories of competitors rather than to list specific company names.

Possible indirect competitors	Information I will collect on my indirect competitors	Research sources I will use



Action Step 2.3 Analyze My Direct, Indirect, and Future Competition continued

B. Recognize other forms of competition. Sometimes customers will create the product or perform the service themselves. Other times, customers eliminate the purchase entirely when times are financially tough, also a form of indirect competition.

Could this type of competition apply to your product or service? Yes No

Explain:

C. Consider future competition. Frequently others note your success and counteract with a competitive strategy. How much time do you have before others begin competing for your customers? Although this type of information may be found for public companies through annual reports, press releases, and product releases, getting information about small, privately held companies is much more difficult. Reading about industry trends may help you anticipate potential competitors entering your market.

Possible future competitors	Information I will collect on my future competitors	Research sources I will use

D. Conduct research. Verify competitive information by actually conducting primary and secondary market research.



Competitive Research

The sources you will use to research competitors will depend on your type of business. The Yellow Pages, Internet, and the Thomas Register of American Manufacturers can be helpful resources. Information about competitors may also be available through vendors and local chamber(s) of commerce or trade associations. Following is a list of additional resources which may be helpful.

Governmental Resources

Department of Commerce – This governmental agency provides information on industries, products, or services. This information may be helpful to identify competition and/or niche opportunities. Contact the Department of Commerce to find out how to access their publications on industry, products, and services at www.doc.gov.

National Association of Secretaries of State – This association, online at www.nass.org, provides contact information for each state's office of business registrations. Visit individual state Web sites for contact information, searchable directories of state businesses, and filing information.

Libraries

Trade journals – These publications often report on industries, products, services, companies, competitors, and proposed products. Look for a journal that focuses on your industry, such as *Nation's Restaurant News*, *Chain Store Age*, or *Chemical Market Reporter*. General publications focus more exclusively on entrepreneurship, such as *Entrepreneur*, *Success, Inc.*, and *Home Office Computing*.

Small Business Sourcebook – An excellent guide for sorting through the many business references and data available, the Sourcebook profiles 224 types of business resources (such as articles, books, and trade associations) for everything from accounting services to beauty shops.

ReferenceUSA – This database of more than 12 million private and public companies nationwide can help you find potential competitors using NAICS or SIC codes, geography, size of company, and more.

The Statistical Abstract of the United States, Encyclopedia of Associations, Encyclopedia of Business Information Sources, Standard & Poor's Industry Surveys – These resources may also provide helpful information regarding competitors.

Trade and Professional Organizations

Chamber of commerce → Join your local chamber of commerce to meet and network with competitors in your area.

Online trade organizations – Online discussion groups relating to your product or service and electronic newsletters can keep you up to date on what your competitors are doing and help you gather relevant information about your industry or target markets. Check your local newspaper for upcoming community events with local organizations.



HillSearch Members

Create a competitor list by clicking on "Create Company Lists," then select "D & B" (Dun & Bradstreet) for larger competitors or "ReferenceUSA" for smaller competitors.



Action Step 2.4 Evaluate Growth Opportunities

Evaluate the growth opportunity(ies) you have already identified.

Directions

Although you may not be able to answer all of the following questions with complete confidence at first, answers will become clearer as you conduct additional market research and clarify your business strategy in subsequent modules. You may want to revisit this evaluation at the end of the program to see if your answers have changed.

- A. **Review your market research information.** Conduct a brief review of all the questions and checklists you completed while reading this module. Take time to review your market research results. Write down any insights you gained after collecting data about the industry, potential customers, the competition, your business, and the marketplace.
- B. **Complete the Growth Opportunity matrix.** This matrix will help you determine and/or confirm which market opportunity is the best match for your business and the marketplace.

Growth Opportunity Matrix

Describe the opportunity/strategy you are seriously considering.

	Evaluation: Circle number 1 = Not at all, 5 = Absolutely				
Criterion: Vision, Mission, and Goals Does the opportunity align with my business's vision, mission, and goals?	1	2	3	4	5
Criterion: Business Growth Readiness Is my business ready for growth and does it have the financial strength to pursue and implement this opportunity?	Yes		No		
Criterion: Market Potential					
a. In implementing this option, will my business be able to compete in the marketplace?	1	2	3	4	5
b. Is the window of opportunity for realizing sales and profits sufficient in length?	1	2	3	4	5
c. Is the growth potential sufficient to make the option worthwhile?	1	2	3	4	5
d. Are the risks acceptable?	1	2	3	4	5

In reflection, does the opportunity match my business and the marketplace?

What additional research will I need to collect?

Note: Repeat this evaluation for each market opportunity you are seriously considering.



A Closer Look

Primary Research

The following are some suggestions for gathering information from your customers or potential customers. Other great sources of information are your own employees as well as suppliers and vendors. They may be able to give you insights into what sells, what doesn't, and why.

Conducting Surveys and Questionnaires

Step 1 Prepare a questionnaire that includes any important information the customers should know before they can formulate a response. For example, respondents may need a short description of the product or service they are evaluating prior to answering questions.

Step 2 List the questions, providing only a multiple-choice format when possible (rather than essay responses) to make it easier to record answers. Select key questions that will give you valuable information for your research. Questions should ask about customers' needs, their preferences on product or service features and benefits, pricing, location, marketing sources, and buying behaviors.

Use a five-point rating scale. Ask questions that can be answered along a spectrum of responses. For example, a customer's definite affirmative response would receive a 5, a customer's definite negative response would receive a 1, and in-between responses receive in-between ratings.

Lay out and neatly type the questionnaire. Graphics and pictures should be used if available since they will help clarify the subject.

Step 3 Decide which method is best for collecting the data you need. If you have a small number of people to reach, perhaps twenty or fewer, you might choose to conduct surveys or interviews by phone or in person. If you want to reach more than twenty people, you may consider conducting a survey by Internet or fax. However, the sample size and complexity of the questions will determine the best method for gathering information from your target market.

If questions can be directed by how customers respond to previous ones, then surveys conducted over the Internet work well. For example, if you seek feedback on customer taste preferences, you could establish a survey site that allows customers to post comments about products, or they could respond to an online survey/questionnaire. Depending on how they respond to specific questions, the software pulls up the subsequent questions.

If reactions to a product or service should be visible, then you need in-person contact. For example, a live taste-test booth could be set up in a shopping area where customers could sample products and provide feedback to a researcher.

If conducting personal interviews, make suitable copies and put them on clipboards for respondents to complete the questionnaire; if using a mail technique, be sure to include a stamped, self-addressed envelope in the mailing; if using a telephone technique, the personal interview format can be applied.

A Closer Look

Primary Research continued

Step 4 Determine how many completed surveys are needed to be representative of the group you are surveying. For example, if you have 5,000 customers and survey ten, that is not enough to assume the information is representative of the entire group. If you obtain completed surveys for ten out of forty customers, chances are much greater that the results are representative.

Step 5 Summarize and evaluate the information gathered. Determine if similar responses indicate a trend within your target market. Many times survey or interview information may not be accurate because respondents are not committed to purchasing the product but merely giving their opinions. Also, since most surveys and interviews are very brief, it is not possible to collect in-depth information.

Focus Groups

A focus group is a simple but effective way to obtain in-depth customer information. This research technique is used to collect information from a group of people instead of using a one-to-one approach. Follow these steps to prepare for a focus group:

Step 1 Develop questions to ask participants and an agenda for the focus group(s).

Step 2 Invite focus group participants who have demographics and psychographics similar to potential customers.

Step 3 Plan the logistics.

- Schedule the focus group meeting at a convenient time for participants. A typical focus group takes one to two hours.
- Find a meeting room or relaxed atmosphere to ensure an informal discussion of participants' opinions and feelings.
- Find an unbiased, skilled moderator to lead the group. The moderator asks broad questions at the beginning and then focuses the group discussion on the specific information you want to obtain. Moderators can skillfully probe the group, stressing the importance of sharing different points of view and emphasizing that there is no right or wrong answer.

Step 4 Use a data collection source that doesn't interfere with the discussion. It is best to record or videotape the focus group discussion rather than taking notes. Findings can then be analyzed to interpret feedback from participants and relate it to the business.

For More Information

about surveys and
for examples of
sample surveys go to
www.fasttrac.org/toolkits.