QDI STRATEGIES

20/20 Vision for Marketing Breakthroughs

Value For Many: QDI's Recipe for Marketing Breakthroughs

by Steven D. Bassill

Mr. Bassill is president of QDI Strategies, Inc. and has spent the last twenty years consulting to businesses in North America and Europe about strategic marketing issues. He conducts workshops and seminars for clients in all aspects of market-driven management.

Creating breakthroughs is like baking a cake. You need the right ingredients, mixed just the right way, baked at the right temperature for the right amount of time, and, presto, you have a cake. The right ingredients for strategic breakthroughs are:

- Fact-based understanding of the market and your business
- Mental models that help ask the right questions and challenge your underlying assumptions
- Your decision makers involved in the process.

With guesses instead of facts, with assumptions instead of reality, and with planners instead of doers baking the cake, your ultimate decision makers won't like the flavor and consequently won't eat the cake!

QDI's Strategic Marketing Decisions Framework

QDI's Strategic Marketing Decisions Framework is the mental model that begins the breakthrough process. It defines three factors that together determine revenue and market share. These factors are the output of decisions and activities that determine the level of market performance for a business. They are the determination of:

- *Addressed Market*: What is the market opportunity for the products and services decision makers

In This Article

A framework to help you make strategic marketing decisions have elected to sell to the customers they targeted?

- *Market Presence*: What percent of the targeted customers actually consider the supplier's product when they make a purchase decision?
- *Close Rate*: What percent of the targeted customers purchase this offering?

Addressed market is determined by the customers targeted and the products or services offered

Companies can change their performance in any of the above categories by making decisions and applying the appropriate resources. For example, the size of the market addressed can be increased by adding products and services or by increasing the number and type of customers targeted. Presence can be increased through changes in advertising, sales force and distribution channels. As management teams work through this model, a primary goal is to come to a consensus on the best strategy to pursue to increase revenue.

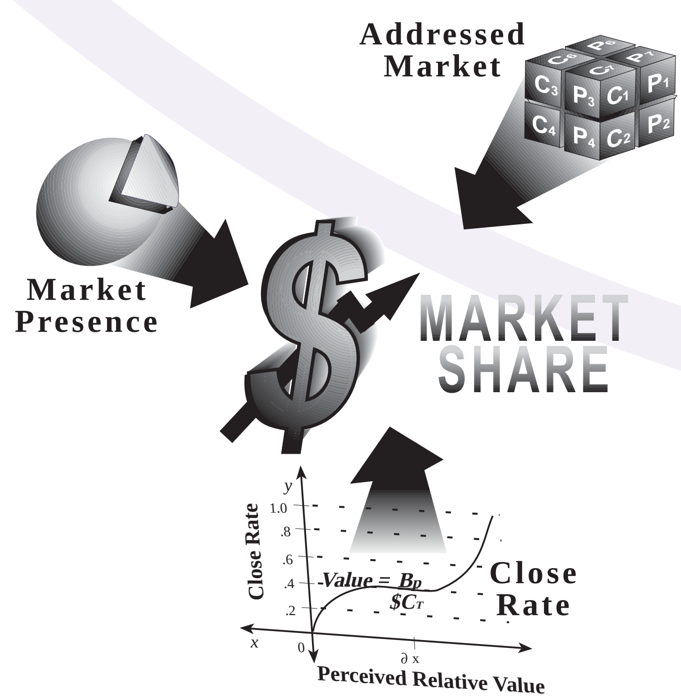
Mathematically, the model is a simple equation: *Addressed Market times Presence times Close Rate equals Market Share or Revenue.* The market share is arrived at by calculating the percentage of the market opportunity addressed deciding to purchase a product or service. If the size of the addressed market is calculated in revenue or units, the same percentages for close rate and presence can be used to determine revenue.

As it is, the model is great for building a shared understanding that answers these questions:

- Who are your customers and what products and services do they buy?
- How many customers really consider your products and services when they purchase, and why or why not?
- How often do you close the sale versus losing it to competition, or getting no decision at all?

These questions just begin to scratch the surface of the framework's power. Each component of the framework is a door to a dynamic set of insights about any business. In this discussion, each of these components will be explored in enough detail so readers can apply them to their own businesses.

Figure 1: QDI's Strategic Marketing Decisions Framework



Addressed Market

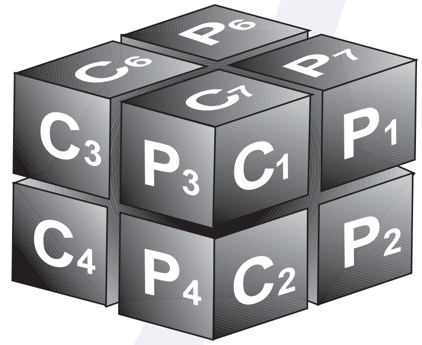
The addressed market is determined by the customers targeted and the products or services offered. This is typically the core output of sophisticated market segmentation exercies. An addressed market is a customer or group of customers that have similar expectations and needs. Often, the definitions of addressed markets are as much behavioral as they are demographic or industry based.

An example of this can be found in the computer industry during the 1980's. Many competitors fought for market share in the minicomputer market. Typical segmentation approaches were based on industry and application. A typical example of a segmentation definition would be, "MRP applications in the wholesale distribution industry."

While this segmentation has logic, it does not necessarily correlate with the customer's needs and the supplier's capabilities. In the example above, the supplier actually created a segmentation scheme that was based on customer behavior and need. The primary behavior that was important related to the customer's roll-out of the system within his business. Many targeted customers already had competitive systems in place.

However, during the roll-out phase, new decision criteria came into play which related to the complexity of supporting the system on a nationwide basis. This is where the supplier excelled. Thus, the segmentation wasn't application and industry driven, but instead was driven by organization complexity - the number of locations and

Figure 2: Addressed Market



- *Total dollars or units*
- *Percent of the market potential your offerings fit*

stages in the adoption process. This is an example of an addressed market based on the value the supplier can bring to meet the customer's needs.

Market Presence

Presence is a measure of the percent of the time a supplier is considered by the decision maker when he evaluates alternatives. Managing presence is all about understanding buying and selling behavior. Understanding buying behavior requires knowing who is involved in the decision making process within a target market:

- What is the normal process to evaluate an alternative and make a decision?
- What does each person in this process need to make a decision in the supplier's favor?

Once decision makers understand buying behavior, they need to understand selling behavior. Will the salesperson, distributor, dealer, agent, etc., effectively present the product to the customer? (Effectively is a loaded word and in this case means getting the supplier's message across.) Does the

What Are Your Addressed Markets

If you can identify an addressed market, you should be able to determine its potential. What is the potential for this year, for next year, over the next five years?

Products		1	2
Customer	a	$$$$	$$$
Customer	b	$$	$

Customer	a	a	b	b
Products	1	2	1	2
Year 1	$	$$	—	—
Year 2	$$	$$$	$$	—
Year n	$$	$$$	$$	$

Once you have defined your addressed markets, you can begin the process of expanding your business definition. You do this by looking at the three segments: your customers, the competitor's customers and people who aren't customers. Then, discover why each segment makes the purchase decisions they do relative to your product or service.

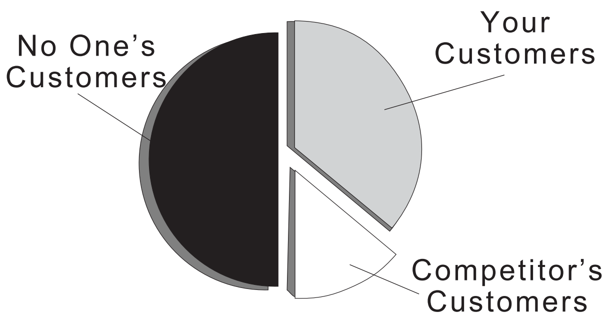
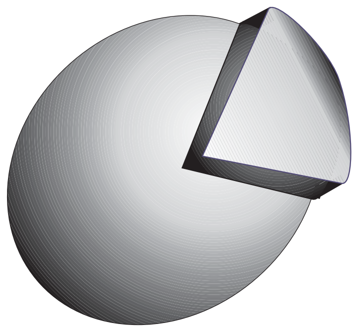


Figure 3: Market Presence



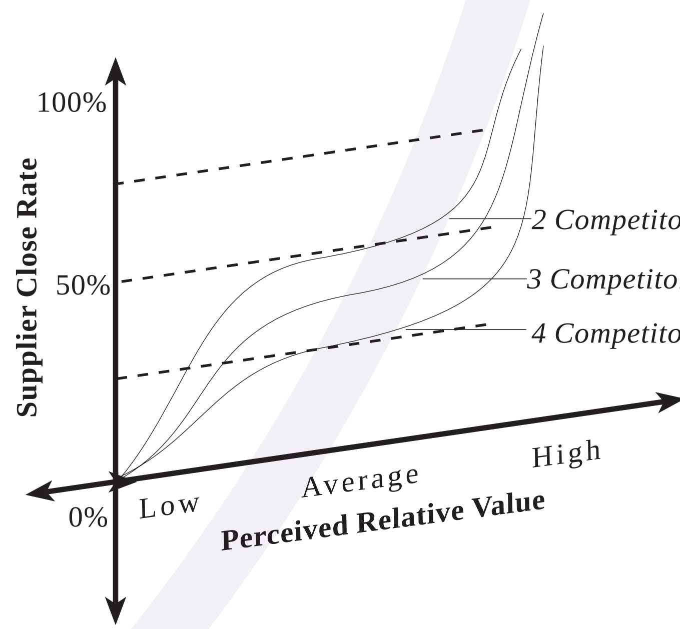
- *Percent of the buyers who consider your offering*

salesperson even call on this targeted customer or on the right personnel within this customer? Does the salesperson want to present the supplier's product? Is it worth the salesperson's time or effort? Can the salesperson be more successful presenting something else? Is the salesperson knowledgeable enough to effectively present the product? Does the salesperson want to learn?

Many of these questions address the classic push-pull theory of marketing. Frankly, salespeople like to sell products requested by customers. Is the customer asking for the supplier's product? Is the customer aware of the product and its benefits? Does the product solve an important problem that the customer is concerned about?

Knowing the drivers of presence to targeted buyers helps determine the right types of activities to implement to increase presence. Without this type of understanding, suppliers are like the companies who waste their money by trying to train the uninterested. They establish expensive training programs which are supposed to teach distributor sales reps the benefits of the products. Unfortunately, the reps already determined this is a waste of time because the revenue opportunity is less than the effort required to present the product. From the rep's perspective, there are more profitable offerings to present to the customer than this product line. Thus, the whole training budget is a waste of resources.

Figure 4: The Value - Close Rate Link



Close Rate

As with presence and addressed market, QDI's Systems Model for Market Effectiveness helps the strategic decision makers come to a shared understanding about close rate - what it is and why it is the way it is. Close rate is based on a concept QDI refers to as "relative perceived value." The higher the customer perceives an offering's value versus other options, including direct competition, indirect competition and doing nothing, the greater your close rate will be. The chart shown in Figure 4 displays this concept. As the chart shows, a low perceived value has a low close rate. A high perceived value has a high close rate. An average perceived value has an average close rate. The actual close rate is a function of the number of options the customer considers. If the customer considers three options, then an average close rate would be 1/3.

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The horizontal portion of the curve about "average perceived value" is purposely exaggerated. The curve represents inelasticity of demand. Essentially, perceived value can move somewhat around average without a change in customer behavior. The consumer is not an electronic switch. Subtle changes in value are not enough to trigger changes in behavior. Examples of this inelasticity often appear in pricing strategies. Slight changes in price, usually less than 5%, do not change share positions. Be careful applying this concept! It has many subtleties.

Since subtle price changes do not change customer behavior, you should ask, "where is your offering priced relative to competition - at the high or low end?" If it is at the low end, you are leaving money on the table. If it is at the high end, any move in price will be the impetus for a change in consumer behavior. Understanding the offering's value to the customer and your comparative price is the only way to answer this question.

The Math Behind Close Rate

The average close rate is 1/3 if there are three competitors vying for a specific sale. This does not mean that the close rate is 1/3 if the product offers have average value and there are two other competitors in the market. This statement would assume that all three competitors are "present" for every sale. Often, close rates are higher than market shares. A 20% share company could win 40% of the business it is present to. Not every competitor is present to every sale.

> It is often valuable to evaluate these sales scenarios as a learning process to increase sales targeting effectiveness.

The No-Sale Dimension to Close Rate

Many businesses, particularly services, deal with sales scenarios where the customer decides to keep the status quo. In this scenario, the value a customer perceives from a supplier's offering is less than the value he perceives from doing nothing. It is often valuable to evaluate these sales scenarios as a learning process to increase sales targeting effectiveness. Decision makers can expect to learn the characteristics of buyers who place the highest value on their offering. This knowledge enables them to more specifically define their addressed market and more clearly focus their organization on gaining presence with these target customers.

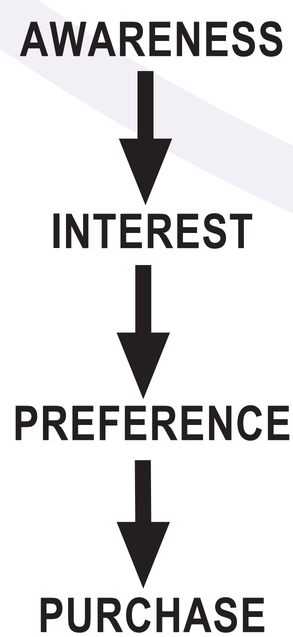
When Do You Know That You've Lost

Close rate is a difficult concept for people who sell services or are involved in long sales scenarios. It is easy to know you lost if you find your customer selected a competitor. It is much harder to discern a loss if the customer hasn't mentioned a specific decision not to go ahead. This is one of the reasons why it is so important to understand the customer's buying behavior. There are several good models for this. The simplest is shown in Figure 5.

The questions that need to be answered have to do with the "who's" at each stage:

- *Awareness*: Who must be aware of your offering?
- *Interest*: Who must be interested?

Figure 5: Model of Customer Buying Behavior



- *Preference*: Who must have preference toward your offering?
- *Purchase*: Who makes the decision to proceed?

If marketers know the "who's," they can build sales strategies to make a "close" at each step of the process. As long as they are moving through the stages of the process at the right speed, they have not lost the sale. In fact, for some organizations, the real insight may come from looking at close rate as a work-in-progress concept.

Using this approach, the management team can then begin to address close rate as the management of a process that leads the customer through each step. This insight would provide much better direction to the overall organization as to what it must do to improve its close rate.

The strategic questions this mental model leads decision makers to ask are:

- Why do people buy from you, your competitors, or not buy at all?
- Do the customers who buy from your competitors have different needs and expectations than the customers that buy from you?
- Do the customers who do not buy from you or your competitors have different needs and expectations than the ones that do buy? Are they just late adopters or do they have a different set of needs and therefore require a different offering?
- Should you make changes in your product mix to address the needs of the customers who are not buying from you? Should you expand the market you address to include new classes of customers?

Each of these questions leads to the need for fact-based decision making. Decision makers can speculate about these answers or collect facts to make sure they understand what is really occurring in the customer's mind. The answers they get to these questions will identify opportunities for strategic breakthroughs.

How to Improve Your Market Effectiveness

If you are trying to create a breakthrough or if you are just trying to run a better business, QDI's Strategic Breakthrough Process and Strategic Marketing Decisions Framework will help you get there. Just like baking a cake, the creative process of developing a breakthrough strategy requires the right ingredients. Market understanding, which is created with facts and QDI's shared mental models, is the right ingredient.

Where to Begin

Your starting point is the Strategic Marketing Decisions Framework. Get your management team to buy into the fact that their collective performance within the business processes that they impact determines your market effectiveness. Get them to see the link between each of their decisions and your company's overall effectiveness.

You can begin this education process in many ways. One way is to have your management team define your addressed markets. Another way is to start with just one customer and define the value you think this customer perceives from you. See if you can identify how each business process impacts the value you provide.

QDI helps create breakthroughs by:

- Leading clients through Strategic Breakthrough workshops where we help them apply QDI's Systems Model for Market Effectiveness.
- Providing the market research necessary to understand and measure market perceptions and behavior.
- Making your planning process market driven. We work with your planners to internalize the mental models and decision processes that QDI uses to create breakthroughs.
- Providing training programs and workshops to teach you how to use QDI's models and processes.

About QDI Strategies, Inc.

QDI Strategies, Inc. is a marketing consulting firm that specializes in helping companies make breakthroughs in product, brand and channel strategies. Our consultants have helped clients to develop and implement breakthrough decisions across numerous industries over the last twenty years. This experience provides you with the expertise to develop market-driven answers to your business issues.

For More Information

For more information or to arrange a meeting with your management team, please contact Steve Bassill at 847-566-2020.

QDI STRATEGIES, INC
1580 S. Milwaukee Ave. Ste. 620
Libertyville, Illinois 60048
Tel 847-566•2020
Fax 847-281-9723