

Identifying new market opportunities to maximize sales and profitability

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In today's economy, B2B companies are grappling with the challenges of protecting market share, maintaining margins and cutting costs, all while balancing the need to demonstrate their unique value to customers and prospects. In turn, the recession has brought to life the need to discover new opportunities in underserved and niche markets. Many of these opportunities can be exploited by using sophisticated technologies to identify customer sub-segments and market opportunities with greater precision and sensitivity than ever before. These technologies can also help define and characterize specific market segments, creating more opportunities for increasingly targeted and effective marketing and sales campaigns.

Precise market segmentation serves many purposes, including enabling the development of appropriately targeted marketing programs, the creation of unique promotions, and the ability to better forecast sales and prioritize product development and logistics. Increasingly, leading marketing and sales organizations are using segmentation to determine the optimal pricing strategy for products, services and bundled offerings. This article will examine the art and science that goes into developing B2B pricing strategies designed to improve market and financial performance.

The Role of Pricing in Meeting Customer Needs

The days of one-size-fits-all pricing are long gone. Each customer needs a unique, compelling and profitable reason to do business with you. For some, price will always be a major determinant, whereas for others, it may come down to premium service, product quality, or sometimes an unknown factor that must be uncovered. If your company's pricing objective is to capture greater market share, and you know that your product's value varies from customer to customer, there exists an opportunity to customize your pricing strategy to maximize sales volume while keeping an eye on profitability. Here are two examples:

I once ran a focus group of automotive repair shop owners to discuss the factors that determined how to choose a manufacturer for their service parts. It quickly became apparent that I had two distinct groups of owners on my hands. Here's why: When asked what was most important when choosing a manufacturer for service parts, one group responded 1) product quality, 2) availability, and then 3) price. This group was comprised of ex-factory trained technicians – they valued the importance of original parts quality and good inventory control.

The other group, made up of shop owners with different backgrounds from the first group, selected: 1) price, 2) availability, and lastly 3) product quality. As you can see, each group had different sets of priorities, creating distinct segments and pricing opportunities.

In another example, oil field operators demonstrated different needs when choosing equipment suppliers. For field operators, location is an important factor in the selection of a vendor because operators that have wells located offshore or on the north slope of Alaska require special equipment designed to operate in harsh environments. These customers are willing to pay a premium for the

specialized equipment needed. For others having no such special requirements, price is a determining factor. As a seller of equipment supplies, understanding the value of the specialized equipment for the oil field operators can drive maximum profit in this market segment.

These examples demonstrate how a customized pricing strategy can create unique offerings for individual customer segments, depending on whether price, service or other factors are considered premium. Marketing and sales organizations understand that customer purchase behavior should define individual needs and drive the definition of unique market segments. In complex markets comprised of hundreds of segments, statistical analyses of historical transactions can uncover clusters of shared behaviors.

The Science of Pricing

From the many customer, product and order-related attributes that exist, the challenge is to find those that correlate best with demonstrated price response. This means that testing, sometimes with hundreds of variables, should determine what matters most and how value varies among different groups of customers. A variety of mathematical techniques can be used, from simple but less powerful tools that need little user sophistication, to those that are high-powered and require a level of expertise. One popular statistical software package lists seven classification techniques ranging from simple classification schemes to powerful pattern recognition algorithms, such as neural networks. The more powerful ones are able to discern finer segments. Pattern recognition algorithms were developed in the 1960's for navigation purposes before GPS. They have been developed further for other applications, such as recognizing patterns in customer behavior.

As sophisticated as statistical analysis tools have become, running the numbers is only a small part of the equation. Pricing software solution providers specializing in analytics have the software tools required to analyze the data. However, the key ingredient is teamwork between the statistical analyst and the staff that is intimately familiar with the markets and products. It is critical that an in-house market expert interpret the results and implications. In fact, raw output has been compared with the proverbial Rorschach ink blot test – what is seen depends on the eye of the beholder. Without keen market knowledge, it's impossible to identify significant growth and profit opportunities through customer groupings.

Next, the results must be distilled down to the most important clusters based upon growth and profit potential, cost-to-serve requirements, competitive intensity, and other factors.

Looking Beyond Demographics

"The art of defining target markets rarely progresses beyond the assembly of somewhat dull demographics. The logical conclusion is that, if everyone is doing the same, differential advantage is difficult to attain."

-- Lord Marshall of Knightsbridge, Chairman, British Airways (as quoted in the book Market Segmentation, McDonald and Dunbar, Elsevier, 2004).

Most of the data needed to properly segment markets is maintained by modern pricing solutions. This includes customer and product information, recent sales transaction history, bid win-loss data, and so forth. In addition, current competitive and customer research findings must be considered, such as competitive intensity and individual customer priorities and satisfaction.

In addition to customer segmentation, sales and marketing organizations must consider factors including:

Product (or service) differentiation: A classic example is good-better-best variation within a product family.

Life-cycle stage: Price sensitivity rises as products age; new introductions have advantages over others on the market and more customers are willing to pay a premium. Later, as newer products come on the market, customer willingness to pay declines.

Competitive intensity: Products in different geographies encounter different competitive environments. Price sensitivity increases with the number of competing products.

Managing Numerous Segments

The old rule of thumb of keeping the number of market segments to as few as possible no longer applies. Today's modern pricing tools provide more automation and have the ability to support complex pricing strategies. Technologies give us the ability to manage an infinite number of segments and thereby tap more profitable opportunities. In fact, managing hundreds of pricing segments is no longer unusual. As markets continue to evolve, how often segmentation needs to be refreshed depends on certain factors, including how dynamic and complex a company's target markets and product lines are. More nuanced price segmentation, due in part to today's modern pricing tools, can reveal untapped sales opportunities. If you seek new market opportunities and haven't reviewed your segmentation recently, or if you haven't looked at it from the perspective of pricing, consider using the latest tools and techniques. There has never been a better time to take advantage of global market trends and advanced technologies for identifying and approaching opportunistic markets.