



Communiqué

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ABOUT THIS ISSUE

In this issue of the **Client Communiqué**, we outline a proven systematic way to examine market share and exactly what actions are needed to grow your market share now. Our PPH formula will show you how to capture market share directly from your competitors. We also discuss simple but effective ways to immediately start generating FREE sales leads in your organization to drive new sales opportunities. Finally, we reveal a powerful strategic framework we call PTP. This tool helps suppliers uncover gaps that may be draining front end sales and/or after-market revenues.

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Proven Formula Takes the Guess Work Out of Measuring Market Share for Manufacturers

ASK THE TYPICAL BUSINESS-TO-BUSINESS SALES/MARKETING EXECUTIVE FOR HIS/HER KEY METRIC—AND CHANCES ARE YOU WILL HEAR IT IS MARKET SHARE.

In reality, measurement of market share has historically been more a matter of art than science. Using industry or government data, relatively accurate measures of market share could be derived. While this measurement provided a bottom-line indicator of market position, it was rarely actionable. It told nothing about the effectiveness of individual strategies and tactics that delivered the market share.

Companies resisted applying hard measures because it was difficult to measure cause and effect. How could you isolate one marketing or sales initiative and attribute business success to it? The measurement of the components of market strategy effectiveness was largely avoided—effectiveness was assumed.

The current market environment does not allow for this traditional treatment of market share measurement. Most clients we work with are still resource constrained—so assuring effectiveness of their sales/marketing initiatives is imperative. Additionally, the recession has forced changes in most markets:

- Market contraction has made market share capture a requirement just to hold historical revenue levels
- The proven credibility of lower cost channel models

(for example, internet commerce) has changed the channel mix requirements to provide the manufacturer with optimal market coverage

- Customers have changed their buying patterns and brand decision behaviors, creating new requirements for the manufacturer hoping to win the sale

For companies struggling with the above, the issue is interpretation of market share. How can a market share measure be turned into action? Even for market leaders, this can be a source of frustration. Frank Lynn & Associates has used a proven market share management formula, the “PPHSM Formula” for over 20 years to help clients maximize the effectiveness of their sales/marketing initiatives. This framework has never been more relevant than it is today.

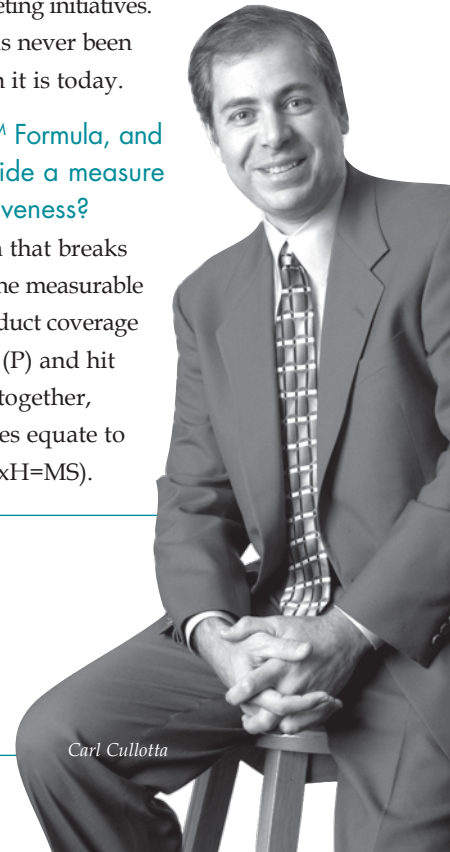
What is the PPHSM Formula, and how does it provide a measure of strategy effectiveness?

PPHSM is a formula that breaks market share into the measurable components of product coverage (P), sales presence (P) and hit rate (H). Factored together, these three variables equate to market share (P×P×H=MS).

PPHSM Formula



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By breaking your market share into these components, the formula acts as a diagnostic – it identifies the limiting factors to strategy effectiveness. Additionally, it provides insight into the types of sales/marketing initiatives likely to produce the greatest return in market share. And since it is a mathematical formula, the model provides a baseline from which to measure over time the cost/benefit to any actions the marketer may undertake to try to boost share.

PPHSM – THE COMPONENTS

What is Product Coverage?

From the customer's perspective, the first P (product) is a measure of the degree to which your product/service offering is considered a viable alternative. Assessing product coverage begins with understanding what the end user is buying – including physical product and the service/support provided around it.

Product coverage determines whether your offering is viable from a form/fit/function perspective. Does the product provide the desired outcomes in the customer's environment? Does your product line meet whatever hurdles exist relative to style/design, or features? Does your line provide an offering at the customer's desired price point? (Consider the "good/better/best" product positioning. Customers focused on a "best" offering will rarely consider a "good" product a viable alternative and vice versa. If your product is 15% to 20% higher or lower than the alternatives, it calls into question whether you have effective product coverage for that customer segment.)

Understanding your product coverage helps uncover potential investment decisions. If product coverage is low for a specific target segment, the manufacturer may be faced with a "make/buy"

decision to expand product line. And this make/buy decision may supersede any sales/marketing initiatives based on its potential impact on market share.

What is Sales Presence?

The second P (presence) is a measure of how often the customer considers your offering at the time of making a purchase. Sales presence has several contributing factors:

- **GEOGRAPHY** – Do you have sales/channel presence within the typical shopping radius where brand/source decisions are made? If so, the customer with a preference for your brand can seek you out. Our experience suggests that customers are much less likely to seek a preferred brand if it means expanding the geography beyond that which they typically shop
- **CHANNEL** – Are you present in the preferred channel for your target customers? (If your customer typically shops at a specialty distributor and your brand is present in the mass merchant, it is unlikely you will have the opportunity to intercept that customer.) Frank Lynn & Associates' research with consumers, trade, and industrial customers shows that customers will purchase brands available in their preferred channel well over 70% of the time, and follow the brand to channels they don't typically source from less than 30% of the time. So presence in the channel your target customer prefers is a key component of sales presence
- **ACCOUNT** – If present in the geography and in the preferred channel, does your sales organization and/or channel partner have a relationship with the entire account? If there are multiple decision makers and influencers, does your current channel strategy provide coverage of these multiple departments or individuals. This is a critical factor in the current market as the economy has caused a shift in the relative influence across functions within the typical business customer
- **DECISION** – The elements of presence referenced above only provide the opportunity to be considered by the customer. Even if you have generated revenue with this account in the past, are you involved in the current purchase decision? Or is the account awarding business for which you are not allowed to compete? We often find that customers





source a secondary brand for security of supply or to keep the primary preferred source “honest” on price. The secondary brand is only occasionally considered for purchase by this customer. The assessment of presence presents a competing investment decision to the product coverage analysis. Does the “make/buy” decision to expand product provide the greatest potential share gain? Or should these resources be diverted to programs that boost channel coverage? Or pricing/programs to motivate the channel to assure you are in front of and being considered for purchase by your target customer more often?

What is Hit Rate?

The final component H (hit rate) measures how often the sale is won when your brand is considered by the customer. It is a reflection of how well your overall value proposition beyond the product itself aligns to the decision variables used by your target customer. Hit rate is reflective of a variety of factors considered part of the traditional marketing mix – brand image, price variations and promotions, ease of doing business, product/service bundle, technical support, product availability, and the manufacturer’s and channel partner’s reputation. Understanding hit rate will allow for optimizing the mix of these traditional marketing variables.

How Does the PPHSM Formula Help?

It allows the marketer to define strategy at an actionable level. Product management and R&D can gain insights from the product coverage

analysis. Sales and channel management can gain direction from the sales presence variable. And the marketing organization generates guidance to its resource allocation from the hit rate assessment. Finally, executive management is provided a quantitative analysis from which to assess the potential return associated with competing investments.

Apply the PPHSM Formula to assess the components of your market share. Start on a territory and/or market segment basis to define discrete changes. This approach will allow you to migrate from a “one-size-fits-all” strategy to an approach that aligns resource allocation to the purchasing behaviors of that target segment. The PPHSM framework will help you define how to achieve measurable improvement and provide an objective tool to measure your effectiveness during strategy implementation.

SUMMARY

Getting Started Using the PPHSM Formula

Do you have an effective go-to-market strategy? Do you clearly understand how to create market share growth?

Bring this powerful market intelligence to your fall planning by taking advantage of our PPHSM Diagnostic Review.

This review helps planning teams to properly apply PPHSM Formula. We will offer 10 manufacturers a complimentary three-hour PPHSM diagnostic at our offices in the Chicago area on a first come, first serve basis.

To get your name on the list, send an email to Carl Cullotta at cpc@franklynn.com or Karl Edmunds at kedmunds@franklynn.com. For questions please call 312-558-4866.