

Managing Your Business



**Conducting a Thorough Market
Analysis –**

**A Key to Success in Mature
Markets!**

Conducting a Thorough Market Analysis – A Key to Success in Mature Markets!

It is a common belief within our industry that most of our markets are relatively stable and therefore predictable. Following that line of thought, there would appear to be little value for marketing departments to spend much time and effort analyzing markets and developing alternative strategies to deal with potential market changes.

To proponents of this point of view, overall markets are not growing much so it is fairly clear to them how they will develop in the future. They argue that if your business is printing papers, for instance, you know that electronic mediums will continue to displace paper over time at a rate of say 1-2% per year. And if you are in packaging, you know that you must continue to find ways to reduce material use and defend yourself against substitutes such as film and composite materials. So, all that is required to stay on track is to manage the business to minimize these losses and keep finding ways to reduce your costs. Right?

Wrong!!

Mature Markets are Dynamic

As a long-standing student of the industry, I know that even the most mature and declining markets are very dynamic and regularly change in unpredictable ways. Competing in mature markets does not mean that demand does not change over time, that across-the-board decline is inevitable, or that suppliers have no control over their business and the direction that it takes. Despite low growth, usage, demand, and segment changes can be quite dramatic, uneven, unexpected, and even lead to increased usage in related areas that can become future growth opportunities!

Also, low overall market growth rates do not mean that the competitive environment is not changing nor does it explain how competitors, suppliers, and customers are responding to changes taking place, what impact these strategic and tactical changes may have on your business, or what alternative solutions may exist that could result in a dramatically different demand scenario for your products. Even if your market is relatively stable, your customer's markets may not be, resulting in the need for you to provide new solutions to meet changing needs. And if you do a better job of this than your competitor does – guess what? - you could very easily double or triple your volume over time!

Good Reasons to do Regular Market Analysis

Just to be clear, I would like to say that there are some very good reasons why you need to regularly conduct detailed market analyses of the markets that you compete in or those that may be of interest. Here are some of the major benefits I see for doing these analyses on a regular basis or having them done by an outside consultant. These analyses:

- Provide an independent perspective to confirm or refute the internal assumptions and biases of the sales and / or management team (assuming analysis is done by an outside party)
- Identify developments and gain information on market segments that you do not compete in
- Gather information on competitors and customers that you can use to revise your positioning or refocus your business to address competitive vulnerabilities or unmet customer needs
- Provide insights into end use developments (customers of your customers) that could identify emerging new needs or problems / opportunities that are not commonly known or understood by you or your competitors
- Allow you to provide market insights to your customers that could help them be more successful or provide you with new opportunities to service their needs and thus strengthen your relationship.

In my experience, the companies that are most successful are those that regularly analyze the market to identify new opportunities for their business. By comparison, the companies that are not in touch with the developments within their markets are the ones that have the weakest market positions and, ultimately, the poorest financial performance. From my perspective, the poor track record in our industry in terms of value addition, product profitability, and the launch of new, breakthrough products is in large part due to the lack of effective market analyses which in turn limits the effectiveness of any new development initiatives that may take place. It is no wonder that the millions of dollars that are spent on capital investments within the industry often show poor economic returns due to less than expected market demand or pricing levels.

These shortfalls can often be traced back to developments that could have been predicted if there was a better understanding of the market conditions and likely changes at the time the project was funded.

The Need to do Effective Analyses

But it is not enough to just go through the motions and obtain superficial market information or, worse yet, information that is misleading or wrong. While the nature and scope of the market analysis will of course vary depending on the specific scope and objectives, there are many common elements that every market analysis should have. For example, the following results are common in most analyses:

- The basic business question should be answered. For instance, can we be successful in this market as defined by (x) and based on the following assumptions (y)?
- A clear understanding of the critical dynamics that drive pricing and demand should be formed along with a historical perspective on how these dynamics have evolved and why. This often requires obtaining targeted information from end use as well as related / adjacent markets
- The competitive landscape should be understood as well as how your company fits into the competitive set. Ideally, specific questions relative to competitors should be identified prior to the research
- A future outlook or forecast should be developed based on research findings and logical assumptions along with alternative scenarios, probabilities, and implications.

Summary

In my experience, few companies in our industry do an effective job of regularly assessing their markets and identifying the best strategic opportunities for their business based on a thorough analysis of market dynamics and trends. This may be due in part to the fact that few companies have the available skill set and time resources to conduct these analyses. In this case, the cost of not having this information and the market insights that result is far greater than the relatively small cost of hiring an outside resource to perform this task. In that event, however, companies should be sure to employ someone with the industry knowledge and functional skills to do an effective analysis.

BDA has both the industry knowledge and functional expertise to provide you with the information you need to maximize the success of your business. Give us a call to obtain a free quotation or just to discuss any questions or thoughts you may have.

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