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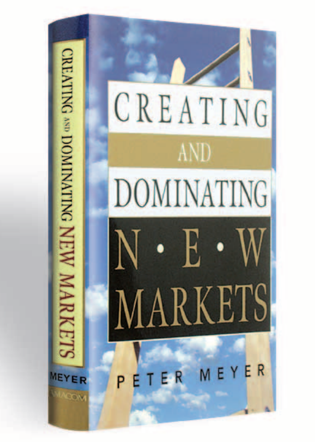

By Peter Meyer

How to Go Where No Company Has Gone Before

CREATING AND DOMINATING NEW MARKETS

CONTENTS

THE SUMMARY IN BRIEF

All business owners dream of creating a new market and becoming the dominant player. The benefits of creating and dominating markets include having time to get it right, being able to make and survive mistakes, achieving greater stock value, and pricing to the market instead of competitive pressure.

New markets, such as those created by Amazon.com and Apple Computer, started with an idea for a market that did not exist before. In Creating and Dominating New Markets, *Peter Meyer offers a guide to owners and managers who want to plan, create and dominate markets but also reduce their risk.*

Within this summary are specific applications and ideas about how to create new markets instead of fighting for a place in established markets.

What You'll Learn In This Summary

✓ **The definition of a new market and where to find them.**

✓ **The most important resources you need to create and dominate new markets.** You'll need time, people and money.

✓ **The role of customers in creating new markets.** New markets are created when a company develops a solution to customers' problems.

✓ **What new markets are available to you.** You can choose one of four paths — involving combinations of new and existing customers and new and existing products — to lead you to a new market.

✓ **Different strategies to manage the risk.** Depending on how well a company understands the customers and products, it can significantly reduce the risk of failure in a new market.

✓ **How to dominate new markets once you have created them.** Credibility and involving the customer in product design can help you dominate a market.

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The Mystique and Challenges Of New Markets

New markets are exciting, profitable and forgiving. They provide the thrill of creating something no one has made before. They also lack the competitive pressure that reduces prices in mature markets. The perception that your company can consistently create new markets can also increase the price of your stock.

Dominance in one market can make other competitive markets more forgiving. Large margins and cash flow in a dominant market can provide support for doing battle in a highly competitive market. Being the only player in a market also allows you to make mistakes without losing market share to competitors.

New markets are new to everyone, not just to you. New markets should not be confused with line extensions, such as laundry detergent with added bleach, which only change markets, but do not create new ones.

The best way to create a new market is to look for a customer's problem, not a product. Markets start with a need. Combining that need with a product is how you create a new market.

Common Denominators of New Market Success

When you look at companies that have been successful at creating new markets, you will see some common key elements. The following principles will help you increase your chances of repeated success:

- **Customer-driven markets work better than vendor-driven markets.** Customers will buy what they want, not what you think they want. An online grocery delivery service seemed like a good idea; customers weren't interested.
- **Take the two lower risk paths to a new market: Develop a new product for a known market or take a known product into a new market.** See the article "What New Markets Are Available to You?" on Page 4 for a further discussion of the paths to new markets.
- **Be willing to ignore opportunities to avoid diluting efforts.** Not every opportunity is worth the chase — especially if it drains resources from other initiatives.
- **Start with cross-functional teams and leadership.** Creating new markets shouldn't be left to one function (marketing, for example). No single business function can produce new markets alone. ■

For a list of questions to help you uncover new markets, go to: http://my.summary.com

Balancing Resources and Opportunities

In order to create a new market you need three key resources to invest in opportunities: money, people and time.

It does not necessarily take a lot of money to create a new market. The cost depends on the problem you are solving and the audience that most intensely feels that problem. Consumer and pharmaceutical markets are very expensive, while business markets can be inexpensive.

People are even more important than money. Remember that people who excel at initiating markets have different skills than those who know how to improve existing markets. Improving existing markets involves improving details. For new markets, creativity and imagination are more important.

The Importance of Time

Time is the most important resource and greatest expense for creating new markets, and it should be measured by time to market acceptance. The sooner you reach market acceptance, the sooner you can reach market dominance, and the sooner you can move to the next new market.

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AOL Gets the Jump on Competitors

In 1993, AOL started to distribute its software on free disks through direct marketing. The company used magazine "out-serts," direct mail, and handouts at book and appliance stores. The plan was to make the software easy to install and to increase brand awareness. A 1 percent rate of response is usually good in direct marketing, but AOL was getting 10 percent. The only question was how long it would take AOL's competitors to respond.

Time was a critical resource for AOL because it protected its market lead. Every day, AOL expected a response from Prodigy or CompuServe, but they were slow to respond. "It was like a blessing from heaven every minute that went by and that didn't happen," said AOL's marketing director.

At the same time, AOL's new users were increasing at a rate that was almost too great to sustain. AOL could only handle a certain number of simultaneous users, and when the total number of users reached 274,000, the system would fail. Time ran out in February 1994, and the service began to fail. There was an uproar as people who were used to getting an immediate response from AOL couldn't get online. But, all the users that AOL had been signing up over the previous months, with the free disks, were not switching to its competitors. Still, that time buffer would mean nothing if it couldn't fix the problem of new members not being able to get online.

Balancing Resources and Opportunities

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Time can also be a barrier to competition. If you move swiftly to domination of new markets, other companies have to speed up to your pace to compete.

Know When to Say No

Experience will teach you to recognize failures, learn from them, and move ahead before wasting any more time, money or people on a market that will not work.

It is also critical to balance opportunity costs with resources. By using resources on one opportunity, they are unavailable for another. Instead of jumping from opportunity to opportunity and wasting resources, learn how to pick the right problem on which to expend your resources. ■

It's The Problem That Matters

You do not find new markets. You create them by finding the solution to a problem that people want resolved. In other words, a new market exists at the convergence of a **high level of perceived need** with **a solution that did not previously exist**.

The phrase "did not previously exist" is key. Many managers are trained to sort through pre-existing options for solutions. Managers who create markets look for completely new solutions.

A "high level of perceived need" is also key. Often, products are sold by focusing on the pain of a problem. Companies create pain, make an existing problem seem more painful, or find problems that are already painful to customers.

Eventually, customers will compare one pain with another. If another has priority, your product or service may lose out.

For example, slippery floors in grocery stores can lead to lawsuits from customers who fall and hurt themselves. These lawsuits are painful to the stores. One company developed a no-slip floor coating for grocery stores to eliminate the risk of lawsuits.

Grocery stores, however, did not perceive the pain of lawsuits to be worth the cost of the floor coating. They decided their money could be better spent elsewhere, and the floor coating product did not survive.

The best option is to determine the high priority problems or pain that already keep your customers awake at night. Those are where customers will invest scarce resources.

Choosing the Right Problem

There is always risk in solving problems. Frequently companies pick the wrong problems and their new markets fail.

You have three options to finding the right problem:

1. Anticipate future problems.

2. Create problems.

3. Ask customers about problems.

The most common approach to choosing the right problem is to **anticipate future problems**, that is, to anticipate what will likely hamper the success of your customers. This is appealing because managers are knowledgeable about the concerns of their clients.

In 1977, Chrysler predicted the need for a fuel-efficient van with the walk-through features of a regular van, but small enough to fit in a garage. The company started development of the minivan, despite the fact that there was no market for it, and it worked.

But often, as with the DeLorean, predicting a market before it becomes real produces failure. It is too risky.

Some companies choose to **create and control serious problems**, then provide the solution.

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It's The Problem That Matters

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When AT&T broke up in the 1980s, Pacific Bell continued to service the telephone line from outside houses to the central office for free, but started to charge for line service inside homes, causing a new problem for customers. Pacific Bell then created a market by proposing the solution of charging a small monthly fee for service on the inside line.

The risks in this strategy are that you may create competitors if the cost of entering the market is low, and customers may refuse to accept your solution to the problem and choose another solution.

The least risky way to choose the correct problem is to **find a problem**. Asking customers — or prospects, if the new market will involve new customers — is the best way to find serious problems that customers are willing to pay to solve. Consistently asking customers "What is the right question to solve?" will eventually uncover a natural focus to products development. The risks are that you might not know what to ask, and you might not like the answer.

Conducting informational interviews is an effective way to pursue this strategy. Do not limit yourself to known customers, especially if you want to develop a new market among new customers. Answers from customers who have chosen not to buy from you in the past can also be very useful.

When conducting information interviews, come prepared with several questions, but only ask two focused questions. Here are some samples of questions that you might choose:

- **What keeps you up at night?**
- **Why should your customers buy from you? Why do they buy from you?**
- **Why do you lose customers?**
- **Where is the next market that this company wants to enter?**
- **If you could wave a wand to solve any problem, which problem would it be?** ■

FedEx: Investing in the Wrong Problem

In 1984, FedEx tried to create a second market of instant document delivery by sending facsimile transmissions across the country for same-day delivery. Unfortunately for FedEx, the technology it had bought for this new market, fax machines, became available to its customers at very low cost. FedEx spent five years and more than $300 million to solve a problem that customers did not rate highly. If FedEx had been willing to accept that it had invested in the wrong problem earlier, the company would have avoided a great loss.

A Solution in Search of a Problem

Webvan is an excellent example of a company that tried to create a new market and dominate it, without addressing a problem that was significant to the customer. The founders identified a new niche — delivery of groceries ordered from the Web. They built the infrastructure, and in an informal survey, target customers indicated they were attracted to the service and valued it highly.

The company was very successful in taking care of the customers. Customers could decide when they wanted their groceries delivered. Webvan provided fresh meats, produce, and high-quality nonperishables. Drivers climbed stairs if it was necessary, and delivery was free if you bought a reasonable minimum. Prices were competitive and ordering was simple. Webvan was treating its customers well, had no serious competition, and it had an excellent infrastructure. Webvan should have had a winning solution, but customers stayed away in droves, and by 2001 the company ran out of cash and closed.

Why? Webvan was a wonderful solution that did not have a problem. The solution made sense to the company, but its prospective customers didn't feel strongly that they had a problem to be solved.

For a chart showing top operational problems, go to:
http://my.summary.com

What New Markets Are Available to You?

Working systematically to create and dominate new markets, you can consciously choose one of four paths:

Path 1. A new product to an unknown customer set.

Path 2. A new product to a known customer set.

Path 3. A known product to a known customer set.

Path 4. A known product to an unknown customer set.

Which path you choose will depend on the circumstances of your business, but understanding the path you are on will allow you to avoid distractions and increase your chances of success.

Different Paths, Different Risks

Creating and dominating new markets is easier when

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What New Markets Are Available to You?

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you start with either products or customers that you know (Paths 2 and 4), but not both (Path 3). Known products and known customers are difficult because you will rely too much on past experience and market knowledge instead of creating a new market. Knowing either products or customers, however, reduces risk because you have some knowledge and experience.

Here are the advantages and disadvantages of the four paths:

Path 1. New product, unknown customer set. The combination of new products and new customers is very exciting because it allows the most creativity. But the challenge of defining customers who have never existed for a product that has never existed makes this the hardest and riskiest strategy.

Mosaic/Netscape Communications succeeded when it created a new market for a Web browser at a time when most potential customers did not know what the Internet was. The company had to create a need for a Web browser and a new product.

One problem with having both unknown products and unknown customers is that you don't know which features to include in your product or service because you are not working on a specific, well-defined problem.

Path 2. New product, known customer set. Working with unknown products but known customers is a much easier strategy because you can go directly to the customers and ask which problems matter to them.

When Edwin Land developed the instant camera for his company, Polaroid, he had a specific customer group in mind: hobbyist photographers. When you know your customers and know what they want, the biggest risk is not being able to provide the product or service to solve their problem. In 1964, AT&T, which had nearly every home in the country in its records, defined customers for a new market of Picturephones. They were never able to make the technology work, and so were never able to create their new market, despite knowing the customers.

Path 3. Known product, known customer set. Managers believe creating a market with known customers and known products is an obvious strategy. Unfortunately this minimizes the risks too much and often ends in a line extension instead of a new market. When VaxGen spun off from Genentech to make a vaccine for HIV in 1995, they did so to get away from the parent company's experience and knowledge of treatments that sell and the customers that buy them. VaxGen did not want to mimic past successes to create a new market.

Path 4. Known product, unknown customer set. Unknown customers and known products is another way to reduce risk. It is not easier than creating a new product for known customers, but this route to building a new market is more likely to succeed.

In the 1980s and 1990s, analog cellular handsets were becoming obsolete in the United States and Europe. Many companies built digital handsets and infrastructure, which was a very expensive and extensive process. Motorola took its cellular phones to developing China where there were millions of unknown customers.

The risk of failure in creating and dominating new markets is directly proportional to your lack of knowledge about the products and markets you are addressing, as well as the tendency to let yourself be defined by your past knowledge. If you can overcome these two challenges and focus on solving the customer's problem, you will be ready to create a new market. You may fail more often than you succeed, but the successes will be well worth the effort. ■

The Role of the Customer

All new markets are risky. Even Cisco Systems Inc., which is known for reading customers and being a market creator and leader many times over for its Internet infrastructure products, has failed. In 2001, the company discontinued an optical router because the market was growing too slowly, and ultimately had to write off nearly half a billion dollars. What appeals to the inventor does not necessarily appeal to the market.

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The Role of the Customer

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When looking for how to make products appeal to the market there are three strategies:

1. Shaping the market.

2. Predicting the market.

3. Asking your customers to help.

Shaping and Predicting Markets

Shaping the market involves positioning the product so that customers view the need for the product the same way you do. The problem is that your company is usually not the only party positioning and shaping the market. There will be competition in positioning because anyone can try to affect the market, and usually the winner is chosen on the merits of the positioning, not of the product. In addition, customers are seldom willing to let you lead them with positioning.

Another strategy is to **predict the market**, as many companies did in the late 1990s and early 2000s when they anticipated a market for Web-enabled telephones. Companies created cell phones that navigated the Web and sent e-mail. But no one wanted to use their cell phones for surfing the Internet.

Predicting markets is risky not only because no market may develop, but because your timing may be off. Correctly predicting a market at the wrong time is just as bad as predicting the wrong market.

Bring in Your Customers (or Prospects)

The best strategy is to involve customers in creating new markets.

Some visionaries at companies, such as Microsoft and Wal-Mart, have developed ideas for new markets and succeeded without involving the customer. Many people have tried to emulate them, but most have failed because starting with a vision is an extraordinarily high-risk strategy for creating new markets.

Asking customers for help, however, can be difficult because customers do not always know what they want in a new market.

When America Online (AOL) asked people if they needed an online service, customers said no. When customers were offered the opportunity to join an informal group of people to chat, or to have a way to send quick notes to family and friends without having to buy stamps and mail letters, they responded positively. Consumers didn't care about the product. They cared about the effects that the online services could provide. You cannot rely on customers to tell you what product they might buy, but you can rely on them to explain their problems and the solutions for which they are willing to pay.

Funding the New Market Effort

Creating and dominating new markets cost money, time and people. It is important to consider how to generate enough resources to subsidize a new market. One idea is to use an opportunity database that allows you to market more cost- and time-effectively to prospects.

An opportunity database can help fund new efforts by changing how you focus on prospective customers and helping your sales team call on the best prospects first, while avoiding prospects who will not be good customers.

Traditionally, prospects come in randomly, as demand-generation programs, such as advertising, trade shows and direct mail, uncover them. Building an opportunity database is a more systematic approach to prospecting.

First, the database of your customers is mined to identify key common denominators that impact their purchasing decisions. Next, you build a database of prospects that includes all likely prospects in a universe. Based on the research into your own customers, you assign each prospect points according to the value of the opportunity.

The opportunity database allows you to identify prospective customers with the most intense needs — the ones who are most likely to buy and are less price sensitive. By selling more and discounting less to the best prospects and customers, the increased profit can be used to create and dominate your new market without stealing from the current one.

Three Steps

There are three steps to letting customers help build new markets:

1. Make sure that your business understands the problem as the customer sees it. Ask customers about the problems they have, not about products.

2. Find out how prospective customers define success for solving the problem, even if they do not understand the issue itself. As you survey potential customers, common themes will begin to develop about how the problem's solutions are viewed.

3. Quickly bring a product to market that clearly addresses those success criteria effectively. Being first to market is not enough. First to market acceptance is the goal.

Involving the customer increases the cost in time, people and money of entering a new market. It also requires discussing problems without solving them or trying to sell products. But the benefit is the ability to get to market acceptance more quickly. ■

Building and Dominating Markets Through Involvement

After creating a market, your company will not necessarily dominate it. Perrier, the pioneer of bottled water, does not dominate that market.

Pitfalls that can occur after building a market include the good chance that your product will not be 100 percent what your customers want; they might decide they want something else. There is also the possibility that customers will stay loyal to themselves and their needs; not loyal to you as you improve and change the product.

Personal Involvement

One way to avoid these pitfalls is to provide ways for customers to become personally involved in the product, making them active partners in building the market and allowing you to reduce risk.

Having customers involved in defining their own experience is a common denominator among many companies who create and dominate markets. If users can easily adapt products to individual needs that the supplier never considered, even when the supplier uses a sophisticated technology, the customers make the product more meaningful to themselves.

Some products, like LEGO bricks, do not even need technology. Everyone who plays with the plastic bricks and puts them together in his or her own way is self-tailoring the experience.

Start at the Design Phase

Building involvement into products should happen when you start designing products for new markets. Begin by accepting a wider definition of the word product that includes everything that customers experience in their relationship with you and your business, including advertising, handling complaints, and offering support. All of these parts of the product can be tailored to the individual needs of customers.

Involving customers is less expensive in time, people and money if it is built in from the beginning. No matter what your product is, position it to be customer involving. Users will find applications that you never considered that could give you increased sales or create another new market. ■

The Role of Information Technology

Information technology (IT) does not build markets, but it can play a role in creating and dominating new markets by helping to solve the customer's problem.

Customers Don't Always Want More Technology

Even though technology allows you to involve the customer, do not confuse technology with the effect that customers want. The early Palm Pilots were far simpler than the technologically sophisticated Apple Newton, but Palm was able to create the market. Invest in features your customers will use, not in features you think they should have. Do not create a product that is so complicated to install or use the first time that the customer never gets a chance to use it. A key difference between AOL and Prodigy in the 1990s was AOL's focus on a "brainless" installation. People and businesses do not buy what they cannot use, and there is no point in stifling a promising new market because only technically adept people can participate.

Technology as Solution

When Sony made the personal radio, it identified a potential gap between what consumers could have and what they wanted. That potential became a market when Sony used the technology of transistors, which already existed, to create a product to fill that gap. A successful company starts with the potential and applies the appropriate technology, not vice versa.

As you look at technological innovations, do not make the mistake of forgetting the problems your customers are trying to solve. If they can be solved without the latest technology, forget about technology.

For instance, Wal-Mart chose to shut down its Web site two years in a row as it entered its most profitable season, Christmas. Why? Wal-Mart wanted to invest in technology that expanded retail locations and put more merchandise on the shelves instead.

In some cases, you may need technology to help solve customer problems, but not necessarily the newest and fanciest technology available. Focusing on the trendiest technologies may get you funding today, but when trends change, you may get left behind. Choosing comfortable technologies instead can decrease the risk to your plan by letting you save time and money using what you know.

The bottom line is that the key to new markets is solving a problem that customers have, not the technology that is used.

Other Ways Technology Can Help

In addition to solving customer problems, technology can help support your market-creating efforts in other ways.

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The Role of Information Technology
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For example, IT can be a tool for market creation when a company is expanding geographically. Woman's Hospital in Baton Rouge, La., is using technology to provide fetal monitoring services in remote areas of the state, so that it can provide the service to more women.

IT can also help with market creation by identifying new markets within existing customers. Cisco Systems was already winning eight out of ten sales from the IT functions in its corporate customers. To grow the business, it needed a product that would attract sales from other departments in those corporations.

Cisco developed a software called Metro that enables executives and managers to do all expense reports online. This product helped Cisco reach a new customer base within its corporate customers: general business managers. ■

Using Credibility

New markets must be based on believable and convincing ideas to attract potential customers. There are many ways to add credibility to your new market effort. Some effective methods may seem counterintuitive.

Viral marketing conserves resources because it requires little cost, replicates itself with no effort by the sponsor, and works automatically. As with Napster Inc. or the fax machine, viral marketing creates a situation where the product is so attractive that not only do people want to have it; they want others to have it. The problem with this kind of marketing is that you might lose control of the marketing effort.

Another way to add credibility to your new market effort is to **choose the right customers**, particularly the first customers.

If your first customers are respected in the industry, others will want your product as well. Centric Software Inc. has been creating a market for collaborative manufacturing and supply software for automobile and airframe manufacturers. Having Volvo and United Airlines as initial clients is more useful to them than Hyundai or a third-world airline carrier.

The same is true of investors. If you are supported by risky companies, prospective customers may view your ideas and business as risky.

Production trials are another method to achieve credibility. Even influential customers don't add credibility if they buy out of curiosity, but never use the product.

Laboratory-style trials are usually conducted outside the normal production process. With production trials, the product test is conducted with the users and process that will benefit from them. They allow the vendor to test the product in the real world, and allow the customer to see that it works. Production trials cost a lot of time and money, but a successful trial can significantly reduce time to market acceptance.

Ironically, creating and dominating a market can leave you with no competitors to validate your work or make your company seem more real. However, many users, great investors or influential customers can overcome the need for competitors, so it is not necessary to invite them into your new market. ■

What's Next?

Whether your company is growing rapidly or dealing with belt-tightening and disruption, it is still able to create and dominate new markets. Changes in demographics, growth, recession and dislocation can all increase your chances for success.

Demographics. Always assume that your client base is shifting, especially as the demographics of the market at large are shifting. Nontraditional families are multiplying, baby boomers are aging, and abroad, war and the spread of HIV are crippling economies. All of these changes can create opportunities for new markets as populations develop new needs.

Growth. Many people are overwhelmed by the perception that everyone is creating new markets in a growth period and that there are none left. However, most companies competing to produce the next best thing are product-focused. By focusing on the problems of potential customers instead of products, you will have much less competition. Stick close to customers and work to discover solutions to their two or three top needs.

Recession. Recessions provide opportunity, because there is so much pain. Problems that were not critical during the good times are suddenly more important. Resolving pain is a good place to start creating and dominating new markets.

Dislocation. Dislocation, disruption and consolidation also provide opportunities for new markets. As businesses grow and move, they have new needs. As old technologies are replaced by new ones — though the average level of service stays the same — new opportunities can open up during the transition. Although messaging needs remained constant, a new market for e-mail products was created (at the expense of the old fax technology).

The Bottom Line: Lead With Problems

Though it is still possible to create new markets during periods of recession, rapid growth and disruption, they all amplify the fundamental error of building your new market strategy on a product. If you lead with problems instead of products in all economic climates, you can be assured of plenty of opportunity. ■