

Where In The World Are You Headed?

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Journal Primer for

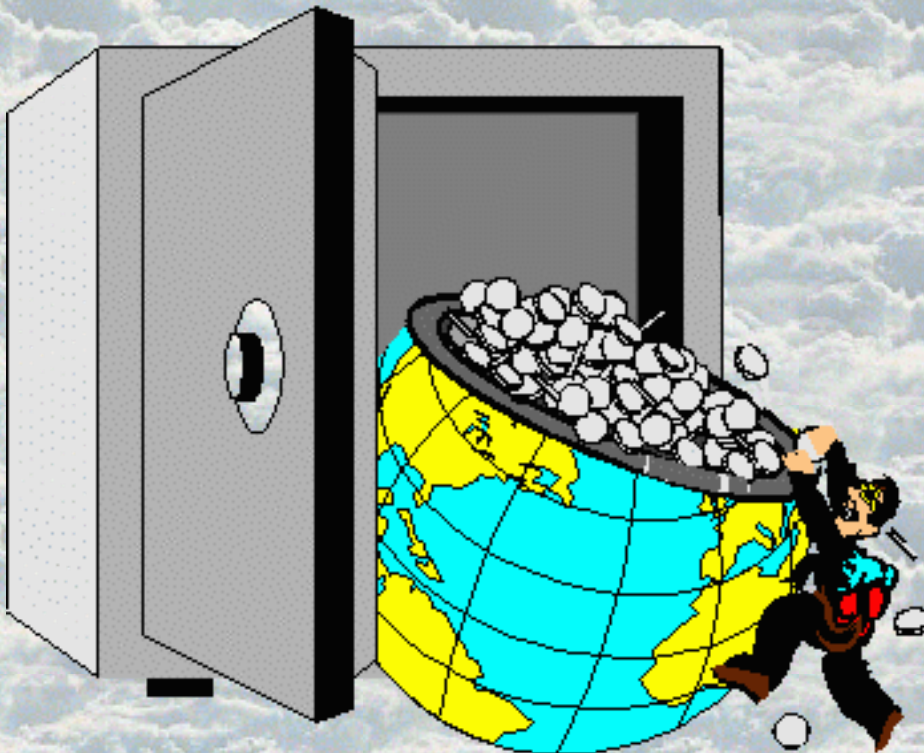
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*Where In The World Are You
Headed?*

*How To Win Business By
Transitioning Into New
Markets Text*

By John M. Collard

*Primer for Corporate
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SECTIONS:

[Government Contracting](#)

[Commercial Market](#)

[International Market](#)

[Winning Strategies](#)

[Article Text](#)

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by John M. Collard

[Sections](#) [Index](#)

The conversion to a peace time economy is forcing many companies into a real battle for increased sales. But unlike war games, new markets don't always produce victorious spoils.

Businesses that head blindly into uncharted markets are asking for peril.

One time missile manufacturers and former F 14 fabricators are looking for new markets and forcing sales starved CEOs at small to medium sized manufacturers into new territories without the proficiency to generate revenue once they get there.

The end of the cold war is shaking regional economies from the roots. During the '80s, defense contractors flourished in spite of sound business principals. The government mandate to cut defense spending has forced many contractors to adjust, abruptly. Most don't know how. Their efforts often fail.

Considering that the Pentagon spends 60 cents of every dollar in just three regions: the Mid Atlantic, the Northeast and the West, and that by 1997, the defense conversion will have touched some 2.6 million people and companies in those areas, CEOs should be constantly evaluating their current market positions.

Even if your company hasn't been effected by the defense conversion yet, it will be. Your first reaction to the increased competition may be to look for new markets. But new markets bring new rules and new ways of doing business—look before you leap, and if you don't know the way, find someone who can help take you there.

To move into a new market segment requires a different way of doing business—a fundamental change in approach. While it's possible to make the shift from government contractor to commercial supplier, and from commercial supplier to international manufacturer, you will need to understand that customers behave differently in each marketplace. Their motivation and timing are altogether different from what you may be used to. You won't be able to do business in targeted new markets unless you understand this first. Trying to generate sales in new markets with your old strategies just won't work.

For example, in federal competitive procurements the trend is toward commodity based solutions. Where

personnel is one part of that solution, the trend is toward lower fee environments. If your company's marketing efforts are geared toward building relationships first, your competition will be out the door with the contract while you're still warming up to the procurement officer. In this market, you'll have to think about pricing to win, then working aggressively afterwards to cut costs or negotiate adjustments.

On the other hand, commercial buyers look for cost effective (typically fixed price) solutions that operate within and compliment existing investments. In the international market, environments are productized, but the bottom line is that it's who you know—or don't know—that counts.

Typically, you'll find yourself steering your company into one of three major market categories. To enter new markets, you will have to posture your company differently in each environment to win business. Here's a look at each major market segment:

[Sections](#) [Index](#)

Government Contracting

Two markets are open for opportunity within the government contracting sector. There are government set asides, which primarily are targeted for small and disadvantaged businesses. Here the government is the buyer purchasing from a qualified seller. Set aside programs are limited to those who can participate and the key here is to get there first.

If you are targeting the government set aside market you will find a constantly churning market of entering and exiting players, all of which are vying for contracts in the \$10,000 to \$10 million range. What you do is more important in this market than how you do it. This market has become somewhat easier to enter since the government has mandated an up to 5 percent minority set aside program for federal procurements.

Larger federal procurement contracts are obtained through a sometimes quite lengthy and very competitive bid process. Again, the government is the buyer through this extremely structured process, but the competition is scattered among the major aerospace and weapons companies, major suppliers, established systems integrators and small businesses.

Reputation is important when it comes to securing federal contracts, and teaming is essential to showcasing unique skills and relationships to accomplish the job. Competitive bids require a significant corporate commitment just to win the contract. Additionally, there is a second tier of competition brought on by subcontractors who are bundling services to win contracts and become part of larger teams.

The low bidder is always the winner in the competitive government contracts market. But the low bidder may not always have the lowest price. Today, contracts are going to the "lowest evaluated bidder," or the bidder who brings the most value for the price to the table. Lowest evaluated bidders have been beating up the lowest priced bidders for some time now and are proving to be stiffer competitors. Plan for long

lead times, mountains of paperwork, and rock bottom pricing in the somewhat flat new acquisitions market. Businesses go fishing for deals anywhere from \$5 million to \$100 plus million to \$1 billion in this market segment.

[Sections](#) [Index](#)

Commercial Market

Most businesses will look to the wideranging and economically unrestrained commercial marketplace for new opportunities. But pitfalls await anxious CEOs here, as well. Sellers approach buyers at will and are subject to buyer's whims. Your industry knowledge is paramount and your products and services must be easily defined and understood.

While profit margins typically are higher and relationships ensure future stability for service oriented companies, buyers are fickle. You may be providing exactly what the buyer needs, but that buyer may suddenly decide he or she doesn't like your tie. And by the way, one of your competitors may have a similar, yet inferior product, but it's starting to look better than yours because your competitor has had the buyer out on the golf course three out of the past four weekends talking about everything but product.

Relationships mean everything in this market and they are maintenance intensive. The commercial market is Darwinian—with project and results oriented customers, performance under pressure is the key to survival here.

[Sections](#) [Index](#)

International Market

As more businesses wander outside the borders of their native countries, the international market will become increasingly more competitive. Yet you won't find it any easier to navigate until others make inroads. For U.S. companies, the international market remains one of the toughest to enter. For the willing CEO, there's little, if any, access to good information, no mentors to follow and no established communication channels.

In the international market, in fact, relationships can be downright incestuous. While it's possible to successfully enter international markets, don't under estimate the power of local presence. Countries like to keep the currency local and limit the export of profits. They favor companies that invest in their economy. Both Ford and Honda have proven this point with their widely scattered worldwide plants. But not all markets are open.

While the U.S. welcomes foreign competition, some countries limit entry. Limiting tactics often range from burdensome import duties and competition limiting treaties to competing against local government

subsidized bids. And don't be surprised to find yourself paying "entry" fees all the way through a power structure that includes distributors who may well be the king's nephews.

Going after business in the global market is a lot like fishing in the ocean—there's plenty of opportunity for that big catch, but you're far from guaranteed a fish. Which is why fishing is called fishing—not catching. You may have plenty of opportunities for business internationally, but if you don't know how to take advantage of them you won't land any new business.

[Sections](#) [Index](#)

Strategies for Winning Business in New Markets

	Government	Commercial	Global
Contract Environment	Life-cycle award; structured by FAR	Not structured UCC governs	Rules of country; \$ exchange rates
Market Environment	Limited; highest-value wins	Caveat emptor; business abounds	Wide open; who you know/pay
Distribution/ Differentiators	Procurement process; design to spec	Salespeople; alliances	Connections; local presence
Technology Importance	Very important; military-oriented	Solution focus; relationship-driven	Paramount; transferable
To Win:	Give fair value for \$	Demonstrate benefit	Boost local economy

Technology transfers and contacts abroad will help you generate international sales, as will a willingness to learn new customs and adapt to new business environments. U.S. businesses are relative newcomers to the international markets. Japan and countries in Europe have been doing business internationally for years. Additionally, there's increasing competition from third world countries and Eastern bloc nations with low labor costs.

So what does it take to win business in new markets? In set aside contracting, the work must be completed by a small, disadvantaged business. While the government procurement cycle is structured to be fair to all, and to level the playing field, the commercial market is driven by solutions and products and services that fill niche needs within a specific time frame. Foreign buyers are commercial in nature, yet they favor their own suppliers unless what they need can only be purchased abroad. But they may only be outside their own borders for a short time seeking technology transfers as many technologies are replicatable.

Companies should approach new markets with realism in mind. Venturing into new markets exposes

unknown territories and pitfalls to unseasoned leaders.

Companies that don't adapt will be forced to cut back: Connecticut's Pratt & Whitney division of United Technologies used to sell some 700 military jet engines a year. This year, orders have dropped to around 50 engines.

Any significant drop in sales usually leads to a shake out in employment. For example, in Maryland, Westinghouse Corp.'s electronics division has reduced its workforce by 40 percent in the past five years. In the height of the defense build up, Westinghouse employed more than 17,000 people in the region. Today, it employs less than 10,000 there. Companies that don't adapt during the defense conversion will continue to be cut back.

Westinghouse, like Pratt & Whitney, is seeking to diversify its commercial base, but most businesses don't have a back up plan just in case their major customer walks away. Instead, Plan B often becomes a boot strap effort to reach out to the "hot market of the month," typically a segment that has been tapped out even as it soars in popularity.

Do your homework before you head for the boardroom—read everything you can get your hands on about your target market. Narrow your focus and take a rifle shot at your newfound customer — chances are if you've learned the lifestyle and adapted to the business style of your target market—you'll hit your mark.

Always aim well; you seldom get a second chance.

Determine if your company has products and skills that are transferable to new markets. Where can you sell a long range bomber or a guided missile system? To a foreign power? Since foreign military sales are governed by the pentagon, you probably don't have a viable market.

But the technology that was used to develop your product may have specific applicability in other arenas. You may have to change the look and feel of what you're offering depending upon what the new customer needs. San Diego's XXsys Technologies, Inc. is taking the ultra strong materials it used to pump into B 2 bombers and is now putting them into bridges and roadways.

Know your strengths and exploit your competition's weaknesses—do your products and services beat the competition in temms of technology, or design, or cost?

You'll also be limited by the size of your own company's resources—tackle only one or two market niches at a time—don't go choking on the big bite.

And don't make self serving assumptions—remember to protect the market share you've already earned while you reach out for new business. The markets you neglect while reaching toward new sales become prime targets for your competition.

Above all, be willing to throw all assumptions out the window—new markets bring new personalities, customs and business traditions to the table. Watch for these subtle nuances and welcome the opportunity to demonstrate your willingness to adapt.

New markets bring new rules and new ways of doing business. Customers behave differently in each marketplace. Their motivation and timing will not be what you expect. You won't be able to do business in new markets until you understand these rules. Don't be afraid to get help.

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[Sections](#) [Index](#)


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[Index](#)

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[Top](#) [Index](#) [Sections](#) [Contact](#)

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