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TACKLING TODAY'S CHALLENGES TO NEW MARKET ENTRY

KRISTINA TOBER & LUIZ ZORZELLA

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OVERVIEW

Growing your business used to be simple. Gather data, analyze it, select a market and develop your strategy, then reap the returns. To say now it's not that straightforward is stating the obvious.

The tactics to entering a new market need to evolve, asserts Luiz Zorzella, consultant to HighPoint Associates, seasoned expert on new markets and growth, and author of *Revenue Growth: Four Proven Strategies*. He proposes a fresh approach to new market entry that is more agile and dynamic in nature, and encourages flexibility, adaptability and speed. Instead of relying on broad strategy development, his process uses "experiments" as a means to test hypotheses about a new market, gain insight and make adjustments along the way.

WHY YOU NEED A NEW APPROACH

Innovation is accelerating in all sectors. In the past, for example, a steel company would look at a new market in hopes of finding ways to outcompete existing players. Same product, same customers, same delivery channels – simple. Today, most companies have an angle, product or business model that doesn't exist in the new market.

"Even if your sector is a 'traditional' one, there is radical innovation not just in product development, but in areas like the business model, channel and pricing," asserts Zorzella. "Just look at companies like Airbnb or Uber which compete in conventional sectors using innovative business models."
And while a company may have a well-established product in its home market, trying to introduce that product in a new market can still present challenges:

- Market data may be limited and whatever data is available may lead to the wrong conclusions.
- Potential customers are most likely not aware of your offering, how to use it or even that they need it.
- There's no existing supply chain, no market practices, standards or even regulations.
- You can't target your future competitors as you're unsure how existing players will respond to your entry.

The tried-and-true process of developing a strategy to find the "best answer" to a market opportunity can't always be applied anymore. As services and products become more innovative, so too must be the process of entering a market. Zorzella asserts that only by"dipping your toes in," creating dialogue with your potential customers and partners, and opening yourself to their feedback and ideas, will you get the answers you need. In other words, it's the process not the data that leads you to your answers.

Zorzella gives the example of an energy client that builds and operates power plants for industrial companies. Despite offering a very traditional "product" (energy), the company innovates with a conversion-based, take-or-pay business model that is possible only because their technology and processes yield superior efficiency. The trade-offs of upfront investment and operating efficiency ruled out a straightforward strategy. Rather, the company had to "sample" opportunities with the new market participants in a more iterative way and through this process gain insight into the best market opportunities.

"Yet even when you are introducing a revolutionary product or concept, you still have to answer the same strategic questions," explains Zorzella. For example, who is our customer and who is the competition? What are the opportunities and challenges in this market? What market segments will we target? Where can we reach our customer most effectively and when will we launch?

With all the unknowns, you can no longer spend significant time and energy accumulating market data, creating and refining a strategic plan, then delegating implementation to a different team altogether. You need an approach that is more adaptable and, more importantly, does not rely on an abundance of historical or track-record data.

"You're not just entering a new market; you are really launching a start-up and with that comes a whole new level of unknowns and risk," he says.

A CREATIVE SOLUTION TO NEW MARKET ENTRY

In response to these radical shifts, Zorzella proposes an iterative process through which companies design and conduct small experiments to "learn" about new market parameters and opportunities. It is an approach that is hypothesis-based and maximizes learning. And, more importantly, it is a process in which you expect change to happen and plan accordingly.

"Companies use experiments the same way scientists do," says Zorzella."Think about Galileo. He hypothesized that all objects fall at the same speed, so he dropped two balls from the Tower of Pisa to confirm that they hit the ground at the same time." An experiment either proves a hypothesis (outcome A) or disproves it (outcome B).

Likewise, a company can put its product in front of a customer to see what she does. The company's objective isn't to add $10 to their top line, but to learn if potential customers buy (or don't buy) the product and why.

As with scientific experiments, this approach in business offers limitless creativity. For example, a company can create a website in a few hours, offer customers the opportunity to pre-order a product before it's available in their market (or offer different versions to see how the consumer responds). This "experiment" not only gives them firsthand market data before the product design is approved, but offers infinite freedom to change the parameters of the product and launch.

HOW IT WORKS: A SIMPLE OUTLINE

1. Start by securing the business leader.

This is critical. Any experiment should be led by the key decision maker who can interact throughout the process, react and make changes "on the spot." While experiments to test hypotheses are typically designed to require low financial investment, they only yield superior results when the senior executive rolls up the sleeves and does it himself.

Because an experiment is often part of a back-and-forth dialogue with other market participants, you need a leader who is empowered to make decisions and find an answer that works. You need someone who has the authority and perspective to react to the results and make the necessary changes, which often are drastic.

2. Use a financial model to define your most critical assumptions

A financial model is an important tool because it assigns numbers to your assumptions and strategic goals. It allows a team to make fundamental assumptions explicit, understand the trade-offs of these assumptions, prioritize which assumptions have to be tested first, and understand the implications of these test results.

But while many prefer to gather data before developing a model, Zorzella counters that starting with the model first is a better option. "Early models are in fact superior to models based on lots of data," he says. "When conducting experiments, everyone knows the model isn't static, so the resistance to change it – even at a more fundamental level – is reduced and there's less urge to waste time in irrelevant details."

3. Determine the simplest, quickest and most inexpensive way to test the high-level hypotheses, preferably with actual market feedback.

When running experiments, you don't rely on research data to validate your hypotheses, but actual market substantiation.

This isn't to say that research is unnecessary. Companies that want to understand their markets and customers inevitably need to conduct disciplined and detailed research. However, quality research relies on clearly defined business parameters, which often don't exist in the "start-up" phase.

4. Test your hypotheses

During the "test," look for cues that can provide insight into why your hypotheses are true or false. Assume changes will be the rule, not the exception. And keep the door open to new insight from unexpected feedback.

"The more you get into unfamiliar territory, the more likely you are to make assumptions that are not true," asserts Zorzella. "By doing an experiment, not only can you test which assumptions are accurate, but you can also learn something you weren't expecting."

Zorzella cites the example of Gillette and the Indian market. For years, Gillette was unable to tap into the over 400 million Indian consumers who couldn't afford the company's premium Mach3 price. It wasn't until the company shipped its Western developers to India to visit the smaller towns and observe locals shaving that they understood key differences and changed product assumptions accordingly (without running water, most men would sit on a floor with a cup of water and shave, so safety and ease of use were important) – and, as a result, secured significant market share.[i]

5. Make adjustments based on these cues and feedback and move to the next round of iterations.

Taking into account the feedback and insight gained in the first-round experiment, adjust the model and refine your next set of hypotheses.

"Any company needs to assess how radical a change they are willing to assume," explains Zorzella. "They need to decide the extent to which a change to meet local market conditions is worthwhile or a drag on corporate strategy."

An Experiment in Action

Zorzella recently partnered with a client seeking to enter the Latin American market. In the U.S., this company is a leading provider of asset-based financial services solutions. Competition at home was increasing, so the company's founding partners were looking at virgin markets overseas as a potential opportunity for growth.

After looking around the globe, the company settled on Latin America. There was no existing competition in the region, which also meant there was no historical data or market trends – making it an ideal opportunity to use experiments.

In addition, with the exception of Chile, the Latin American countries have been historically plagued by credit repression and financial instability. Local consumers and businesses have a very different relationship with money and financial products than North Americans, to the point that certain aspects of financial management can be unrecognizable to recently-landed North Americans.

When Zorzella explained the "experiments" approach to the client, the partners were enthusiastic about the concept. The approach resonated with their entrepreneurial roots and they immediately recognized the potential this process had to answer questions they had about the region in a structured way.

1 ***Step 1: Secure the business leader***

From the start, one of the company's founding partners expressed desire to play a very active role in the entry strategy definition phase. This partner was also the person who would head the company's international businesses once launched, making him an ideal leader for the process as he had both the authority and perspective to make it a success.

2 ***Step 2: Use a financial model to prioritize your hypotheses***

Next, Zorzella and the client together developed a financial model that prioritized the hypotheses to be tested. The model included simplified versions of the company's critical processes (from customer data acquisition to origination and reporting).

Some of the key variables in the model (such as total number of potential targets by location, growth rate by segments, and local interest rates) could be obtained through traditional research. However, other equally important factors could not, such as whether processes similar to those in the U.S. would work in the region; whether it was possible to identify targets using regional data sources; and whether it was possible to reach property owners using that target data and the company's CRM system, especially considering the security risks present in Latin America.

3 ***Step 3: Design experiments to test those hypotheses***

One of the most critical questions to be answered was which market could offer the scale necessary to make the opportunity attractive to the company and its investors. This was not an assumption that could be tested directly. However, the model suggested that if the business model and economics stayed similar to that in the U.S. and the rates of penetration in the new markets were within a certain range, then Latin America's three largest markets together (Brazil, Colombia and Mexico) were absolutely necessary for the initiative to achieve the required critical mass.

Most of the other pending questions were of a different nature and had to be tested. The company's leadership decided that the easiest and quickest way to answer some of the most pressing high-level questions was to run their critical processes end-to-end in a few selected locations.

This experiment required some degree of creativity. Systems were not ready to accept Latin American targets (even address formats were off), data sources were still being crunched and more. But it did not matter. Instead, they manually assembled a list of potential targets, a simplified modification was made to the system so it could accept different entries, and the data was input.

4 *Step 4: Use a financial model to prioritize your hypotheses*

All set, a small team (including the business leader), flew to the region, knocked on doors and presented their product just as it was done in the U.S. Not only were they able to test market-demand hypotheses, this end-to-end experiment allowed them to test some of their operational hypotheses such as the feasibility of the processes for target identification, use of the company's GPS-enabled CRM app for opportunity development, and more.

In the process, the client also gained valuable insight about their customers. For example, after learning about the company's offering, a number of potential customers spontaneously suggested that the offer could serve to mitigate neighbor quarrels. While this was not an intended product objective, it did hint at additional perceived value the company could explore when "tropicalizing" its products.

5 *Step 5: Adjust and iterate*

By the end of the first iteration, the company's leadership had good visibility on the opportunity. The fact that the business leader was directly handling the experimentation came in handy when presenting the results and discussing recommendations with the Board. The combination of first-hand experience with solid research allowed them to discuss the opportunity with credibility and vividness.

RUNNING A SUCCESSFUL EXPERIMENT

"The experiment concept offers tremendous flexibility, but demands deliberate planning," explains Zorzella. Experiments are not pilots. They are not meant to be scaled up, but rather set up to learn about a specific aspect of a new market and scrapped afterwards.

To maximize learning, Zorzella stresses the need to focus on what you want to learn and how you will achieve it, and make sure you have a solid model so you know which questions/hypotheses to address first.

Furthermore, as with scientific experiments, there is much value in specific controlled settings. The more you can isolate the factor you are testing, the better the quality of the insight. For example, when testing a market hypothesis, an experiment that tests if you can sell a product to a customer is good. A better experiment is one that tests if the customer needs the solution your product provides. Even better is an experiment that tests the root cause behind the customer need.

Finally, remember the cardinal rule of thumb with this approach. "It's a very fluid process, not rigidly scientific," concludes Zorzella. "You can see how your end customer reacts and make variations as you go, all the while generating more diverse insights than any static market research or pilot program ever could."

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i "Sharp Focus," Gabriela Berner, Jade Chang, Marina Dunaeva, and Leonardo Scamazzo. London Business School Case Study. *Business Today*, April 13, 2014.

ARTICLE CONTRIBUTORS

KRISTINA TOBER is a communications consultant with over 21 years of experience. After working at The Wyatt Company, Kristina supervised and executed all areas of corporate communications for Helene Curtis, Inc., with an emphasis on investor relations, employee communications, and executive speechwriting. She also served key agency accounts at Ogilvy Public Relations Worldwide, providing communications strategy development and implementation, labor relations, and investor relations. More recently, Kristina has served a variety of clients on a freelance basis with an emphasis on copywriting and website content development. Kristina holds a BA from St. Olaf College.

LUIZ ZORZELLA is an expert on new markets and a consultant on growth strategy. He has launched ten market leaders and has helped numerous companies accelerate growth, improve ROI and implement growth-propelling transformations. Luiz is the founder of Amquant, a growth consulting firm, and a former consultant and expert with McKinsey & Company, investment banker with JP Morgan Chase and founding partner with IMLA and LifeStats. He chairs the Brazil-Canada Chamber of Commerce Trade and Investment Committee, mentors at Google For Entrepreneurs Toronto and is a frequent speaker on strategy.

100 North Sepulveda Blvd, Suite 620
Los Angeles, CA 90245
(310) 616-0100
contact@highpoint-associates.com

641 Lexington Avenue, 15th Floor
New York, NY 10022
(212)-634-6496
contact@highpoint-associates.com