Bring on the New Year—and Please Hurry!

By

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Introduction

Twenty-twenty. What a year! As *Hamilton* (the smash hit musical) imparted, “the world turned upside down.” COVID-19 and its pandemic consequences be damned. Like the mythical phoenix, America will rise from its metaphorical ashes to again prosper. Entrepreneurs will figure prominently among the protagonists. It is their nature. God bless them. No one told them that their feats were impossible as they proved wrong the nattering nags of negativism. Innovation, inspiration, and determination are their mantra. Lessons learned from the experience will result in business model recalibration. This is already happening, but the evolution continues.

There is no such thing as status quo. Business either grows or shrinks. The average lifespan of a small business is dreadfully short. The Small Business Administration reports that only half of businesses last at least five years. Moreover, the SBA reports that the small business percentage of the economy has continually slipped since the 1988 mark of 48% to the 2019 level of 44%. Perhaps Bill Campbell’s knack for telling his mentees what they needed to hear instead of bromides is appropriate. (Campbell is impeccably profiled in Eric Schmidt, Jonathan Rosenberg, and Alan Eagle’s *Trillion Dollar Coach*.) If small business is essential to the economic engine, then higher-octane fuel may help.

The hunter-skinner metaphor is useful juxtaposition to frame this quarter’s value-creation article installment. (I beg indulgence from vegetarians and vegans.) “Hunting” addresses revenue. “Skinning” regards operations. The scope of this article is hunting, i.e., growth.

Total Addressable Market, a Strategic Imperative

One of M3's pet peeves is the relationship between marketing and selling. They are separate, yet complementary. Many small businesses get the relationship backwards as evidenced by the business card of the leader responsible for both, e.g., vice president of sales and marketing. Marketing is strategic. Marketing focuses on what should be sold to whom, where, and how. Sales is tactical: transforming suspects (i.e., unqualified prospects) into repeat customers.

A fragmented market enables many lower middle market businesses to hide in the herd. A disrupted market may further cloud the picture by confirming that there is no norm. Investors who see defragmentation opportunities relish these scenarios. However, not all small businesses aspire to transact with a private equity firm. Indeed, many do not meet the investor's strike zone. Irrespective of a small business owner's interest in recapitalizing their business, pondering investor motivation is a good benchmark for value-creation for independent motivations. With respect to growth, the *quantity* and *quality* of profitable revenue is a good start.

Fragmented markets offer aspiring leaders the opportunities to establish norms

The underlying objective is market share, but how does a business define the potential of its target market? Consider these analogous points about U.S. truck sales:

- California is the most populated state in the union. One tenth of its autos are trucks.
- Texas is the second most populated state in the union. One quarter of all Texas autos are trucks.
- New York is the third most densely populated state. Less than nine percent of passenger vehicles are trucks.
- Wyoming is the least populated state. Two-fifths of its registered vehicles are trucks.

Want to start a bar fight in Texas? You may get close by insulting Ford, which has a third of the truck market share. You may have higher odds of instigating a fracas by insulting American truck brands, which comprise four-fifths of the Texas truck market.

Individual preferences get very personal. While growing up as a farm boy, the Ford-Chevy debate was intense among my neighbors. My brother and I burned out several clutches and pressure plates learning to drive a three-in-the-three manual shifting '57 Chevy Apache. Ole Blue was indestructible and hauled anything we could squeeze into its step-side frame and sideboard extensions. Ole Blue lasted 18 years before its untimely death induced by a burned piston. Even so, loyalties change. My version of middle-aged crazy was the purchase of an accessory laden Ford F-150 SuperCab with a turbocharged engine—my Home Depot "car" for weekend warrior chores. I suspect that my Ford loyalty rationale would make as many friends as enemies.

Total addressable market is that portion which is realistically attainable

Where is this going?

- A proven, huge market will not necessarily be kind to our interloping product. There is a world of difference between a total market and total *addressable* market. The latter is how much we might be able to capture, provided our unique value proposition appeals to a critical mass of buyers. Figure 1 below frames the idea.
  - We have a portion of total addressable market.
  - Competitors may have a portion that is practically impervious to competition for whatever reason.
  - There is also a competitor share which may be vulnerable for various reasons.
  - A portion of the market may not be profitable and should be eschewed.
  - Geographic expansion may be an opportunity for share of market.

- New product introduction may also be an avenue for a twofer: share of wallet and share of market.

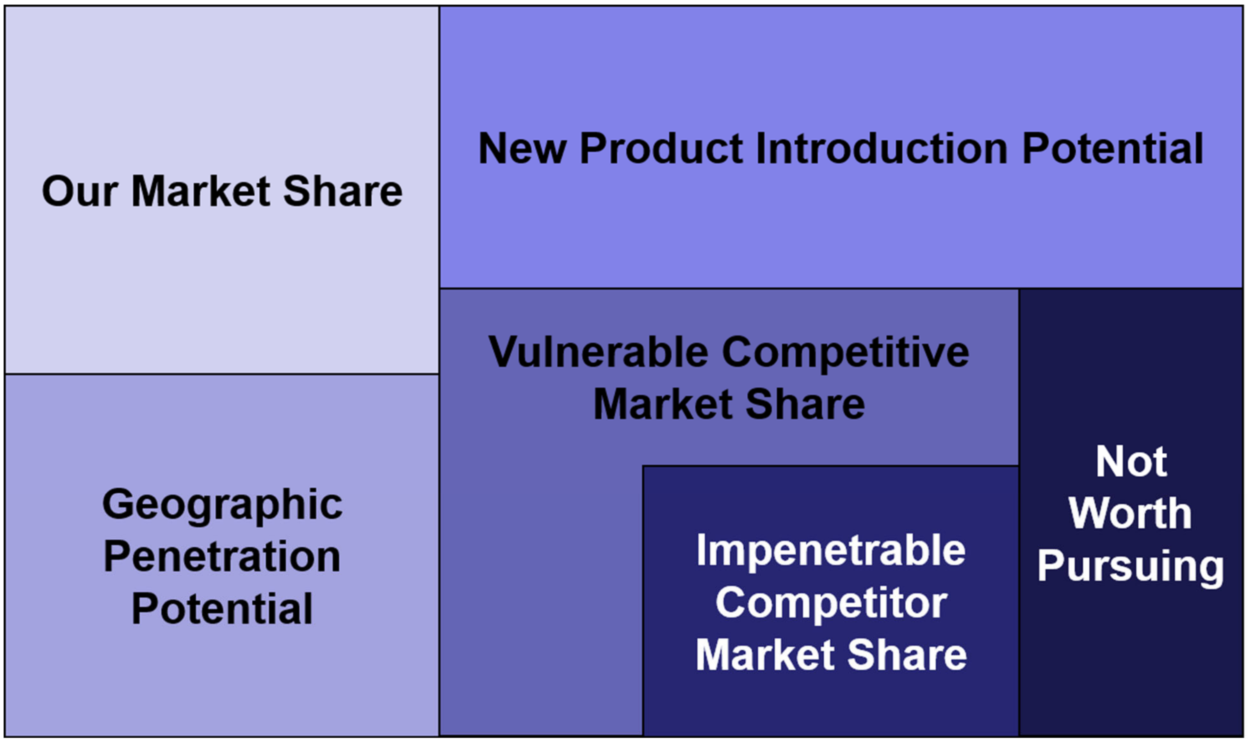

Figure 1: Total Addressable Market

- Simon Sinek (of *Start with Why* fame) asserts that a business lacks sustainable market position until it has about a fifth of the market. Boston Consulting Group substantiated that a market is not stable until a single vendor controls half the market. Total addressable market is such an important variable to success that its quantification is worth the investment in a vendor with the requisite subject matter expertise. We may have an ideal customer strike zone. However, we need to know whether our market appeal is a pipedream or a practical pursuit.
- A unique value proposition is the reason customers willingly trade their cash for our product or service. The key word is "value." Customers expect at least as much utility from their purchase as what they pay. Wise vendors avoid the term "price" like the plague as it denigrates the product to commodity status. Our

unique value proposition should be captured in a pithy declarative—if not imperative—sentence. There is only one caveat for the unique value proposition: it better be true. The unique value proposition should be part of the elevator speech used by our sales professionals to holistically convey the benefits of a vendor relationship with us—but briefly.

- We should have a singular focus of differentiation. Whereas in *The Discipline of Market Leaders* the authors admonish that we must be good enough with our product, fulfillment, and customer relations, Michael Treacy and Fred Wiersema further argue a point at which one category, to the exclusion of the other three, becomes differentiable. These differentiable terms are operational excellence, innovation, and customer intimacy, respectively. The catch is that differentiation is an either/or—not both/and—proposition.
    - Anecdote: In twenty years of lower middle market value creation endeavors, I have NEVER worked with a client team which was inherently aligned on its choice for differentiation. The debate is existentially important.
- Identifying and prioritizing marketing channels are additional ingredients in the marketing alchemy. When we know our ideal customer profile, the complementary questions are where we productively find those ideal customers and how.

Determining the approximate size of our total addressable market is essential to our go-to-market strategy. A market does not have to be enormous to be sufficient. As Paul Jarvis rationalizes in *Company of One*, a market only needs to be big enough for what we wish to accomplish. Our obligation is quantifying and qualifying the total addressable market and a strategy for being its leader. Returning to the benchmark quality of revenue point which investors value, the revenue should be:

- Consistently increasing. Low double digits on a year over year basis is the bare minimum.
- Devoid of concentrations. Again, a good benchmark is low double digits.

- Profitable.

Professional Sales, a Tactical Necessity

The marketing effort should prepare the sales professionals for success with competitive intelligence about how the target market is more likely to be persuaded by the unique value proposition. Sales management “operationalizes” the value proposition by preparing those who directly encounter potential customers. Sales is a process that qualifies prospects from suspects before converting them to first time buyers. One of the most valuable lessons I learned from a mentor is that a customer is not a customer, however, until they are disposed to repeat business.

Repeat business should be the practical criterion of a customer

Unfortunately, only about a tenth of sales professionals are sufficiently trained in how to sell. All too often, the result is spewing features to see if something sticks. Along the way, margins may suffer via unnecessary price concessions. By contrast, sales professionals should be trained to ask probing questions and listen intently for revealing answers. Customers in need of a solution may impart exactly what they are looking for and how to position our products to close the sale. To be clear, we emphasize the benefits of our solution over features. We garnish those benefits with their features if such is required to substantiate the benefit. Corroborating metrics are also a compelling complement.

We at least slow the slide to the eventual commoditization of legacy products by figuring out the problem a customer is trying to solve. This may be best done by the Socratic technique, i.e., asking. Customer decision drivers map to four high-level categories:

- Value—not price—which we have already defined.
- Timeliness, i.e., physical possession of the item when the customer wants it.
- Quality, or the reliability of the purchase doing what it is supposed to do for an extended period.

- Service, what the vendor does when any combination of the three items above fails. Ample research confirms the virtue of owning the problem; definitive research establishes the merits of prompt resolution.

If we are fortunate, we have the arrow in our quiver which the customer seeks. Worst case is that we may salvage the relationship by referring them to a vendor who can immediately solve their problem.

But what about the "P" word: price? We should displace this obstacle with the "C" word: cost. We can reduce a customer's cost without necessarily reducing our price. Again, ask and listen. Even if we are dealing with Silas Marner or Ebenezer Scrooge, we may be able to horse trade for quid pro quo, i.e., "I might be able to come close to your desired price point if you guarantee X minimum quantity for Y years." Even though we may have reduced our price in such a concession, we also reduced our acquisition cost of the customer. Hence, we may have preserved margins on a longer-term basis. This is one of the reasons we engage our finance professionals on big deals to make sure we are scrutinizing the transaction for its broader implications.

Resolve to lower a customer's cost instead of reducing your price

Additional noteworthy techniques include:

- Ask customers about their challenges. At a minimum, this establishes empathetic rapport. Even better, their soliloquy may yield surprising buying signals.
- Even if a prospect opines to their satisfaction with an existing vendor, then consider these two alternatives:
  - Ask what one thing that the vendor could do to make them and even better supplier. (Think about Curly extending his index—not middle—finger in the movie, *City Slickers*.) This may be a valuable datapoint for future positioning.
  - Seek a test sale opportunity to be a back-up vendor in case the existing vendor has a hiccup.

- Ask what issues the company is having for which no vendor has produced a viable solution.
    - This may be a product development signal and consequently a de facto differentiator.

There are many reputable sales training models in the market. However, unless and until two things are non-negotiable, the boss is wasting company money on adopting any of them. One of the non-negotiables is role play for common market challenges. Savvy sales teams do not risk the sale by a live fire drill with a good prospect. Rather, they practice in the safety of their colleagues. Peer feedback is valuable and may include alternatives rooted in their experiences. Vince Lombardi, legendary former coach of the Green Bay Packers, bristled at the would-be axiom of “practice makes perfect.” Rather, he asserted that “perfect practice makes perfect.” For example, in *Blood, Sweat, and Chalk*, Tim Layden recounted how the Green Bay Packers practiced their signature sweep running play in practice until the precision of the blocking scheme was second nature to the linemen. How do we mimic perfect practice in sales? Role play for commonly encountered scenarios.

The other non-negotiable is managing by whatever model the company adopts. A good model generally encompasses the following:

- Define a “sales call.” Unless it makes definitive progress towards the order, it does not count.
- Insist on doing homework ahead of time. Comprehend the customer within its target market. Abundant, free information typically awaits us in the public domain.
- Understand our competition, including their strengths and vulnerabilities.
- Profile the contacts within a prosect as to gatekeepers, influencers, decision-makers, and imposters.
    - Anecdote: A good question for flushing this out is “Would you please help me understand how your company makes its procurement decisions?”

- Establish opportunity stages, e.g., suspect, qualified prospect, proposals outstanding, and won opportunities. Also track conversion rates and cycle times for these stages.
- Establish a call plan that tracks quantity over time. Like baseball, times at bat correlate to hits.
- Track and critique lost proposals for learning opportunities.
- Make a point of reviewing the status of the account with key customer contacts on a quarterly basis. Emphasize quantities per product line, on-time delivery, quality, and customer service solutions. When a customer validates performance, immediately pivot to two actions:
    - Ask for more business.
    - Ask for a referral to a friend.

  When a customer confirms we are performing, it is hard for them to avoid either pivot. According to “The Beatitudes,” the meek may inherit the earth, but that is delayed gratification. Confident sales professionals write orders--now!

Closing Thoughts

Peter Drucker is among many who reasoned that “nothing happens until someone sells something.” However, a more virtuous, sustainable, and differentiable route to writing the order may be through solving a customer’s problem. This begins by understanding their worldview in the context of their ecosystem. If we make the effort to unearth those nuggets, then our customers may sell themselves on the merits of our proposed solution. This is the alchemy of the robustly scalable tandem of marketing and sales.

Here’s wishing you and yours a prosperous, profitable, and healthy 2021!

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