

Market Diversification: The Road to Growth

By Ken Walker, Senior Account Executive, MAGNET

Among MAGNET'S customers, the companies which seem to be holding up best during these tough economic times are companies that have already diversified their businesses. Many of them are doing more than just holding their own—they are actually growing. Generally, these companies have a leg in either the Aerospace, Alternative Energy, Medical or Military markets.

We at MAGNET have seen first hand the benefits our clients have reaped from reaching out to new markets primarily with their existing product or service lines. It's a process called Market Diversification.

There are a number of reasons for diversifying into different markets, including

- ◆ **Growth**—Companies which may have a high market share in their existing markets may find substantive additional profitable growth in their current market difficult.
- ◆ **Declining revenue in existing markets**—In today's economy, you don't have to go too far to find industries which have suffered significant declines. The auto industry is the most glaring example. 16 million cars were sold a year ago—this year, optimistic forecasts are for 10 million cars. It might be years—if ever—that a 16 million car market exists again.
- ◆ **Low to declining profitability in existing markets**—If you're in an industry that is dominated by a relatively few number of customers, their buying power drives your profitability and they usually drive it down.
- ◆ **Industry is maturing**—Not exactly declining, but not growing either. The only way to grow in this scenario is to take away share from competitors.

Does Market Diversification Really Work?

The simple answer is—yes it does!

Several years ago, I was with a company, a unit of a Fortune 500 company, that had upwards of \$250 million in annual revenue. This company had a mandate for growth. But, while they enjoyed good profits in their core business, opportunity for growth was restricted due to their distribution network and a large number of competitive threats.

This company decided to grow through diversification. Since it already sold into the automotive market, its managers naturally looked to an adjacent industry: heavy-duty trucks. They also decided to look at a dissimilar industry: aerospace.

It became clear that the company's current distribution model was not going to work for these two new markets. So management established two *separate* sales forces. They would pursue both markets by selling direct to the end customers.

For the aerospace market, research showed real growth would be associated with sales to the military, and specifically to air force bases. The company built a sales force for the aerospace segment comprised of former military personnel. This new sales force was tasked with establishing relationships at military bases.

The company also hired a channel marketing manager to spearhead its penetration into the aerospace market, as well as a consultant to continuously monitor government tenders.

In the first year, sales grew about 3%. Although it may seem like a relatively small amount, the company had successfully established beachheads in two different industries and could now count on meeting its growth objectives going forward.



MARKET



DIVERSIFICATION

Into Action

So once you decide it's in the best interest of your company to diversify, what's next? Make sure you understand your company, products and services.

This may seem obvious, but many companies that have been delivering the same products and services to the same customers over a long period of time tend to lose sight of why those customers really buy from them in the first place.

(Continued on back cover)

READ ALL ABOUT IT!

Find out how regional companies are navigating the rough waters of this economy by diversifying into new markets.

- ◆ **Many Ohio manufacturers preparing for the worst**, by Betty Lin-Fisher, *Akron Beacon Journal*, June 1, 2009, <http://tiny.cc/prepare>
- ◆ **NE Ohio manufacturers learn of options to diversify customer bases**, by Dan Shingler, *Crain's Cleveland Business*, June 11, 2009, <http://tiny.cc/diversify>
- ◆ Visit www.magnetnetwork.org/diversify

Homeland Security and Small Business Opportunities

This article is reproduced in part from information found on the Department of Homeland Security Web site.

Small businesses that believe they have a product that is ready for the Homeland Security market should first try to determine if the product is most likely to be purchased directly by Homeland Security or by a state or local government. If the product is a candidate for direct Homeland Security procurement, identify those organizations that might potentially buy what is being sold. The Homeland Security Administration offers the following advice to help companies identify those organizations:

- ◆ Review the information at the **Small Business Procurement Assistance** section of the **Open For Business** Web site to get a better understanding of the small business marketing tools and business information available to assist with your marketing efforts.
- ◆ Review the **Forecast of Contract Opportunities** to get a better understanding of what each organization intends to buy.

- ◆ Determine which organizations to market to, then prepare a marketing plan and contact the appropriate **Small Business Specialist** by email or phone to introduce your company.
- ◆ Schedule a meeting with the Small Business Specialist through the **Vendor Outreach Session Program** or visit the Department of Homeland Security at one of the National Outreach Activities Conferences.
- ◆ Prepare to discuss specific projects or solutions you can provide for the organization.
- ◆ Follow-up with the **Small Business Specialist**, review postings on the **Current Contract Opportunities**, and register to receive Department of Homeland Security electronic notices through **FedBizOpps**.

In rare cases, firms may have an *innovative* and *unique* idea for which submission of an unsolicited proposal may be the right approach. Before beginning this process, however, you should carefully and objectively assess your idea to ensure that it is, in fact, innovative and unique, and that it is not already commercially available to the government. Unsolicited proposals are offered with the intent that the government will enter into a contract with the offeror for research and development or other efforts supporting the Government mission. Additionally, you should research Part 15.6 of the **Federal Acquisition Regulation (FAR)** which provides simple but specific criteria that must be met before an unsolicited proposal can be reviewed. Once you have reviewed these requirements and made the determination that you have a valid unsolicited proposal, then you should submit your proposal to the most appropriate **point of contact**.

Some security product areas of interest include the following:

- ◆ Construction and renovation in airports
- ◆ Government and industrial facilities
- ◆ Detection systems
 - Chemical
 - Biological
 - Explosive
 - Radiation
- ◆ Decontamination systems
- ◆ Personal protective equipment
- ◆ Blast-resistant products



KEY POINTS

- ◆ **Small business opportunities exist to sell products and services to the Department of Homeland Security.**
- ◆ **The Department of Homeland Security has outlined six steps to help companies locate these opportunities.**
- ◆ **Companies can even produce unsolicited proposals, but appropriate guidelines must be followed.**
- ◆ **For web links to the resources in this article, search the e-library at <http://members.questline.com?24>**

- ◆ Physical and electronic security systems
 - Biometric
 - Wireless Security
 - Video Imagery
- ◆ Information management
 - If you are developing a commercial application for technologies in these areas, you may want to consider the following:
 - ◆ Would your technology qualify for an Small Business Innovation Research (SBIR) solicitation?
 - ◆ Would your technology interest the CIA investment assistance? ■

Source: Department of Homeland Security. 2009. *Open for Business*. <http://www.dhs.gov/xopnbiz/> (accessed March 6, 2009).



Ask an Expert

Licensing a Healthcare Product

Q: A client asked me this morning what was a reasonable structure for licensing their healthcare product. They are looking for a company that can manufacture their product, develop it further, and get it to the marketplace. Do you have any sense of where they should be looking, and what they should be seeking?

A: Finding a reputable manufacturer that would want to further develop a health care invention and market it can be an overwhelming task. It is such a difficult task that many inventors often will pay thousands of dollars to firms that promise to evaluate, develop, patent, and market inventions. Unfortunately, many of these firms do little or nothing for their fee (there have been lots of alerts from the Federal Trade Commission about these types of firms).

It is possible to find contract manufacturers that will make a product as designed, but they are not invested in the success of the product. It is more difficult to locate a manufacturer that would want to license an idea, develop a product, make it, and mass market it.

Here are some strategies that may slowly open doors of opportunity for your client:

- ◆ Check out trade shows in that particular product area. What companies are making products that might compete with this product idea? What manufacturer is making a product line that could be expanded to include this idea?
- ◆ Check out online catalogs that focus on this product area. Go through the same process in locating manufacturers.
- ◆ Check out patents assigned to manufacturing companies that address the problems this product is intended to address. Who are they? Who are their competitors?

Having assembled a listing of potential manufacturers, your client can begin to explore their interest on a conceptual level. There are several good guides that have been written that can help an inventor protect their ideas (confidentiality and disclosure agreements) as they investigate potential manufacturing and development partners.

It is generally preferable to negotiate a limited license, so the inventor/entrepreneur can reserve rights in other product areas and can terminate the license if the licensee is not exploiting the invention successfully. There are no handy lists of examples of lump sums charged. It is simply a matter of negotiation.

They should do research on what similar inventors have been paid in the past and what they think the invention could be worth to the company. Then negotiate. Consider taking a solicitor or an experienced friend to negotiation meetings—especially if there are concerns that they might otherwise be exploited. Examples of royalty percentages negotiated in various industries are given in a book, *Intellectual Property: Licensing and Joint Venture Profit Strategies*, Smith & Parr, Wiley/Sweet & Maxwell, 1993, ISBN 0471574457.

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Time to ask:

- ◆ What are your strengths and weaknesses?
- ◆ What are your core competencies?
- ◆ What is your Value Proposition?
- ◆ What is the real reason your customers buy from you?

Even if you are selling a commodity product or service, there has to be a reason your customers buy from your particular company if they have other choices. Once you understand this and can articulate it, you can determine how to translate that unique quality to capture new customers, just like you captured your current customers.

Eeny, Meeny, Miny, Moe... to Which Market Do I Go?

After self-analysis, decide which new market suits you best. Look at closely related markets, or adjacent markets. If you sell into automotive, an adjacent market would be, for example, heavy-duty trucks. Another approach: look for high-growth, stable, but dissimilar markets. In the example above, my former company chose the aerospace industry. Other growing markets include medical/biosciences, alternative energy or military/government.

What Will You Sell?

After market selection, you need to determine which products and services you are going to sell them.

Are you interested in creating new products? While this is a viable approach, selling new products into new markets to new customers is inherently more risky. Take a hard look at your existing products and services and see what has potential for the new market you are going after with no or perhaps small changes.

Once that's done, then do your research—*Market Research*:

- ◆ Who are the key buyers in the new market?
- ◆ What are their buying habits?
- ◆ Who are the competitors you are going up against?
- ◆ Are there special certifications you have to have, like ISO 13485 for medical devices?

Even if you are selling modified existing products/services, do you have to purchase capital equipment or tool up for a different size? Do you have to hire additional sales folks or customer service support people?

Effective market research will tell you what you can expect from the market you have selected to go after, what you need

to do to penetrate the market and, in some cases, warn you that this isn't the market you should be going after, for a whole host of reasons.

"I Love It When a Plan Comes Together!" Hannibal, of the "A" Team

With the market research completed, you will have identified a market segment that fits your company's strengths, core competencies and products. You will know who the players are and what you need to do to qualify to participate in the market. Now you have to come up with the plan to enter the market and achieve your goals.

With a self analysis, market research and marketing plan in place, you are ready to reap the rewards of your market diversification efforts. A company that invests in this process is well-poised for growth, even in tough economic times. ■

For more information on MAGNET's new Market Diversification program, contact Ken Walker at 216-391-7741 or at ken.walker@magnetnetwork.org

MAGNET is a provider of Manufacturing Extension Partnership (MEP) services through the National Institute of Standards and Technology (NIST), an agency of the U.S. Department of Commerce. MAGNET is also one of the Ohio Department of Development's seven Edison Technology Centers and a Third Frontier Center of Excellence in Product Innovation.

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