



Analysis of the negative space

A simple, yet powerful, approach for finding opportunities with competitors' customers

A photographic negative reverses the view of an object. What one normally can see is dark, and what one normally can't see is highlighted.

Sometimes in marketing, taking a close look at what can't normally be seen is very illuminating. The unseen is primarily competitors' customers. They could be customers found in applications, vertical markets (a.k.a., industries), or geographic territories currently covered by a company OR in new applications, vertical markets, or territories. They could, in some cases, be existing accounts for a company that are considered "too small" and hence ignored.

On the following pages we describe a simple approach to creating a view of the Negative Space, the unseen in the market – any market – and what can be accomplished by analysis of this new information:

First, define the market. The best definition is end-use customers (e.g. construction, MRO, or OEM) where the manufacturer has a good product fit in terms of form or function. Let's assume that manufacturer XYZ is evaluating its market opportunities. That would mean if the end-use customer bought manufacturer XYZ's product or service and it would physically serve the needs of the end user, then that should be included in the market definition. For the time being we are ignoring price, brand preference, and cosmetic product issues.

Second, create a universe for that market. This universe should include all end-use customers in a defined geography, which means both XYZ and competitor customers, customers of all sizes, and customers in all vertical markets. This universe is then arrayed by size, e.g., large, medium, and small customers. For most manufacturers in the B2B space the number of end-use customers will vary between millions (office supplies, tools) to the hundred of thousands (components, specialty MRO supplies and equipment, and accounting software) to the hundreds or fewer (certain OEM subassemblies).

Third, put a dollar and unit value on the universe by size category. We need dollar and unit value by size category in order to evaluate and prioritize growth opportunities. Typically the Pareto rule applies, 20% of customers = 80% of market size, and quite often 5% = 50%, 15% = 30% and 80% = 20%. Unit volumes are usually more concentrated than dollar revenues, as typically larger end users enjoy better pricing. If "solid" market sizing information is available RS Consulting

can use that, but if not we can use guesstimates as a starting point and then develop accurate estimates as part of the project.

An important objective of the first 3 steps is to define the market and create a picture of the universe in order to guide the market research and analysis of Negative Space, which are the next 2 steps of this process.

- The graphic on the next page illustrates what this market universe picture could look like

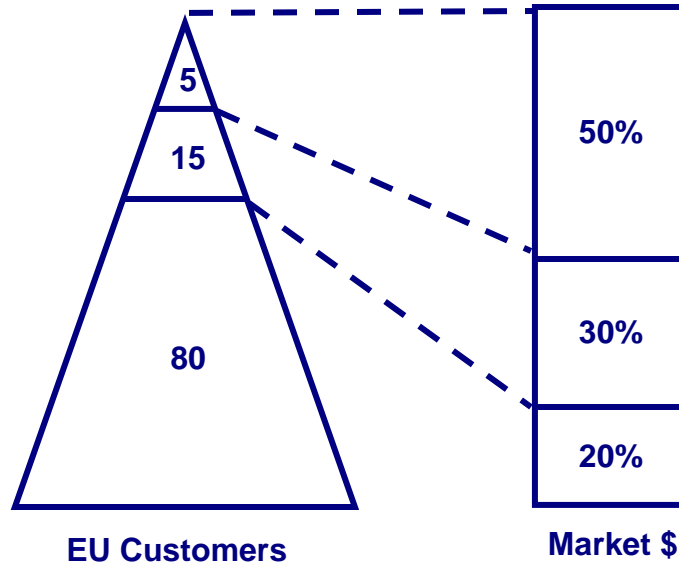
Fourth, create a sample from the universe that is representative by geography, vertical market and most importantly competitor share. The sample should probably be over represented in large and medium customers.

Fifth, collect detailed in-depth information on the Negative Space, the competitors' customers in each size grouping. What is needed is demographic and descriptive information and also information on buying behavior and rationales.

Demographic and descriptive information includes:

- Size of company
- Vertical market
- Channel used to procure the product
- Is the end user called on by the manufacturer's sales force and channels or not?

Illustration of Market Universe



	XYZ Share	Geography			Vertical Market
		East	Midwest	West	
Top 5	25%	25%	35%	20%	
Next 15	40%	45%	50%	30%	
Bottom 80	53%	60%	40%	50%	
Total	35%	32%	38%	33%	

The tactics available to any B2B marketer to move market share can now be applied with surgical accuracy to the biggest potential dollar opportunities.

Buying behavior and rationales information includes:

- Reasons for their brand choice
- Reasons for their channel choice
- What is stronger, brand loyalty or channel loyalty or lowest price
- Reasons for not choosing XYZ's brand and/ or channel
- Information on selection criteria, bidding procedures, purchasing authority and decision makers
- Circumstances surrounding the last time the end user switched brands and why

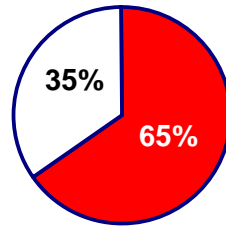
Sixth, look at the numbers, and listen to the reasons why XYZ wins or loses. Now that we have information to illuminate the Negative Space, what are the big numbers? By evaluating the largest stacks of dollars that XYZ doesn't get, by the reasons it doesn't get the business, one can see many new and exciting growth opportunities. Here are some possible results, which are illustrated on the following page:

- Let's say XYZ has a 35% share.
- Analysis of the Negative space may show 20% of the market buys from channels that do not carry the XYZ brand. Of those 20%, it may be that competitor ABC, at 15% share overall, enjoys half the revenues, or two thirds of its business comes from this group.
- Or perhaps we discover that 10% of the negative space is end users being called on by the XYZ channel, but buy a different brand from another channel having had a bad experience in the past with the XYZ channel.
- Or perhaps we find that 15% of the market buys a different brand from XYZ's channel, and is unaware that XYZ is also represented by that channel.
- Or perhaps 5% of the market buys from the XYZ channel, but prefers other brands for cosmetic reasons.

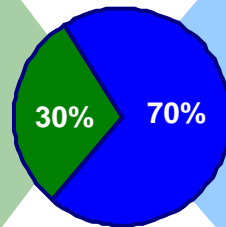
In every case opportunities are apparent. The tactics available to any B2B marketer to move market share can now be applied with surgical accuracy to the biggest potential dollar opportunities. Payback is easier to calculate for marketing spending. Implementation problems like channel conflict and street price erosion can be minimized. Marketers can focus on non-price methods to move market share.

The Negative Space can also be used descriptively. Where is it geographically? By Industry vertical? By size? By channel? These facts can also be enormously useful for reallocating resources to under performing areas.

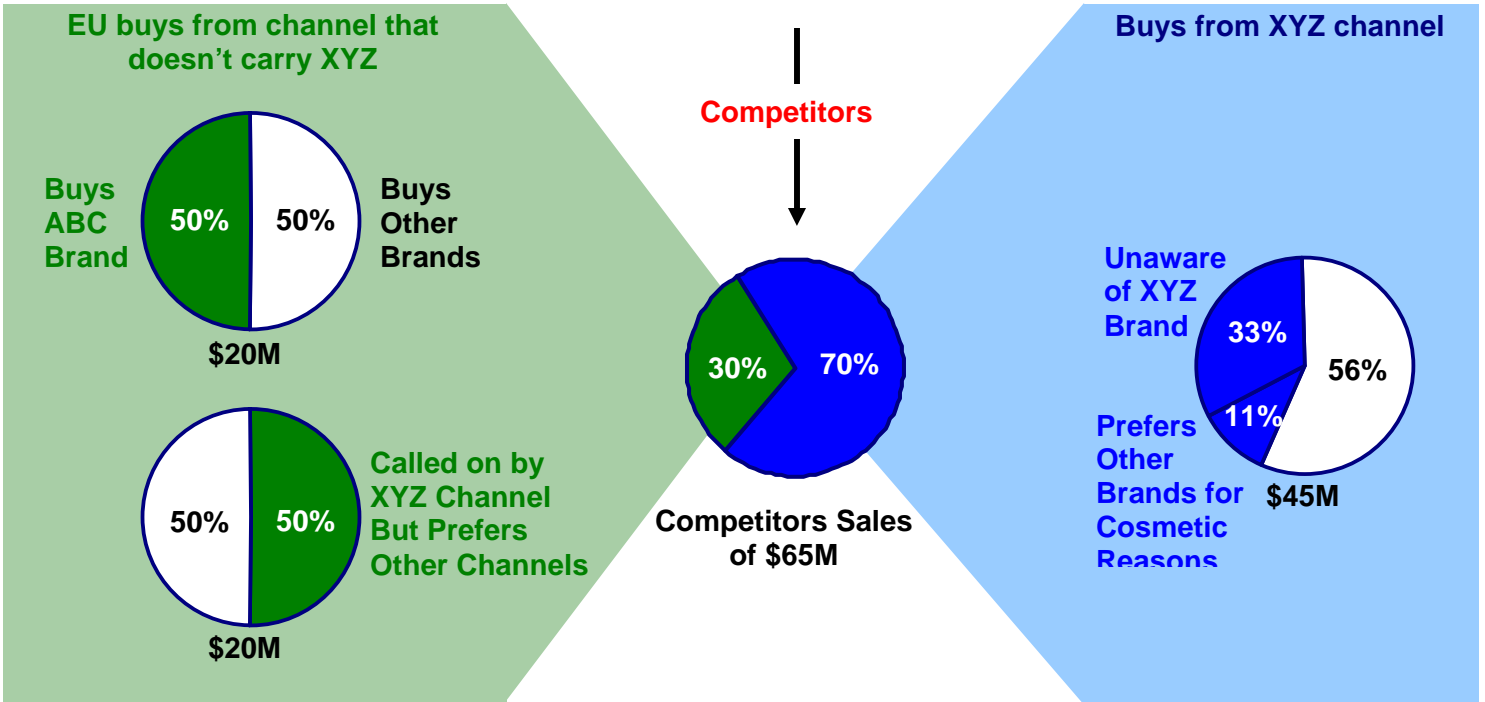
Illustration of Negative Space Results



Total Market Size of \$100M



Competitors Sales of \$65M



Negative Space Opportunities:

Prefers non-XYZ Channel (\$10M)
ABC Buyer from non-XYZ Channel (\$10M)

} XYZ works with channel partners to convert accounts

Buy from XYZ Channel, But Don't Know XYZ (\$15M)
Prefer Other Brands for Cosmetic Reasons (\$5M)

} Implement sales & promotion plan to increase awareness and change perceptions of XYZ and its products

Real Life Results

The benefits of analyzing Negative Space will obviously vary and are specific to the individual market. But the following examples show what a powerful tool this can be:

Chemicals Manufacturer

A chemicals manufacturer discovered that only about 2% of their market switched vendors every year, but over three quarters of the switched market was due to a specific trigger event, a new channel salesperson coming in to replace a veteran. In many cases the end user gave the business to another veteran channel sales rep that had been calling on the end user without success for many years.

Opportunity: Develop intelligence from the field on channel sales reps who are leaving. Use veterans from other channels to attack competitive accounts, or maintain incumbents. Devote 20% of sales and marketing budget to these 2% of accounts.

Electronic Components Manufacturer

An electronic components manufacturer was astonished to discover a new “design and broker” channel thriving and growing rapidly in smaller OEM accounts. Many of these new developing channels had tried to source from the majors but had been refused. So they were sourcing from mainly small offshore suppliers. Meanwhile the major brands fought each other bloody over the large OEM accounts and mega distributors.

Opportunity: Significant new revenues at higher than average margins were available for doing little more than signing the “design brokers” to exclusive

contracts. New competitors were also prevented from gaining a toehold in the domestic market.

Industrial Supplies Manufacturer

An industrial supplies manufacturer was surprised at how much of their Negative Space was populated by end users who didn't know their brand or any channel member representing their brand.

There were both geographic and industry deficiencies in channel coverage. The manufacturer, due mainly to historic inertia, enjoyed saturation coverage of such industries as automotive and aerospace, but almost no coverage in other industries and geographic areas, for example western US firms involved in mineral extraction. Many of these customers had been growing strongly over the past few years while traditional customers had been stagnant.

Opportunity: By redeploying sales and marketing resources to growing industries and geographic areas, and away from stagnant markets, sales increased dramatically with only minor incremental cost increases.

Medical Products Manufacturer

A medical products manufacturer went to market with large consolidated national distributors. They believed their market coverage was 100% because essentially every distributor in the market represented their product. They were very skeptical that a Negative Space analysis would turn up anything more remarkable than who the low bidder was for each end user.

Instead, it became abundantly clear that certain sales reps for the distributors were friends and certain reps were foes, and

the end user was generally indifferent to the brand and relatively price insensitive in most cases. The broad bundle sold by the distributor was the driver for most end users, along with their overall distributor contract price, and their distributor's delivery and services. These factors drove end users to choose one distributor over another, but brand choice for the manufacturer's product drove little decision making.

Opportunity: The solution was to devote much more attention to turning foes into friends on the distributors' sales force and scale back expenses on such activities as seasonal price promotions, and other marketing tactics that had outlived their usefulness.

Manufacturer That Sold Direct to End-Use Customers

Even direct sellers can often be surprised by an analysis of their Negative Space. A study for a construction materials firm discovered vast numbers of competitor customers that were not considered leads or even known to the company's sales force. Disturbingly, many of these potential customers were located in the same territories as the firm's existing customers that were called on regularly.

Opportunity: The client instituted a tele prospecting and database mining program with the goal of building a universe of potential customers. They also changed compensation to reward new customer acquisition.

The Downside of Customer Intimacy

While we are pleased that we have been able to surprise many clients with the startling and useful information found in the Negative Space, we at RS Consulting

have been ourselves surprised that our clients are surprised. Looking back over our more than twenty years of analyzing markets, we think in the past clients knew more about the nature of the business they don't have than they do today. We also think we know why, at least partially. We think the average B2B manufacturing firm in, say, 1995 had more salespeople per dollar of sales, less consolidated distribution, and probably no meaningful customer management software. Since then, sales forces have been cut because of fewer channels of distribution and because of electronic customer management made possible by software.

These changes have created much more customer intimacy for customers that buy from the manufacturer but greatly reduced the visibility into the part of the market that doesn't buy from the manufacturer. This is not necessarily a bad thing for efficiency, and we are told somewhat convincingly by many management gurus to concentrate on those few customers where one makes most of the profits (another version of the Pareto rule.)

But for a marketer looking for new opportunities, failure to know what the Negative Space looks like can be very limiting, i.e. limited to the share of spend enjoyed in current end use customers. And perhaps not even that if the end user is hidden behind the cloud of a perhaps monstrously huge consolidated distribution channel.

Of course knowing the business one has, and why, is critically important, but also perhaps easier information to obtain in many cases. Knowing the Negative Space, understanding the business one doesn't have is more challenging information to obtain and also potentially the key to unconventional growth opportunities.



Final Thoughts

What About Your Company's Negative Space?

If your company seeks dramatic growth, take a new and different perspective on the market and consider RS Consulting's Negative Space analysis. Certainly your company should leverage existing customer relationships, but it will also need to develop new relationships.

Does your company have the market information and insights about your competitors' customers (i.e., your company's Negative Space)? Does your company know what it takes to convert these competitor customers? How to prioritize and target people and resources to grow the business – quickly and cost-effectively?

With our Negative Space analysis we can help your company answer these important questions and thereby identify, evaluate, and successfully capture new and exciting growth opportunities. If you would like to learn more about how RS Consulting's Negative Space analysis could help your company realize significant growth, please contact one of RS Consulting's principals, Dick Kerndt, Mark May, Richard Barnes, or Bill Coulter at 312 368 0800.

For more information about RS Consulting USA, please visit our web-site at www.rsconsulting-usa.com.

To discuss this topic in detail, please call us at 312-368-0800