

2. APPRAISING THE MARKET

2.1. UNDERSTANDING OUR POSITION



A good step to this first approach is to S.W.O.T. ourselves:

Don't Panic!

S.W.O.T. stands for Strengths, Weaknesses, Opportunities and Threats and is laid out accordingly:

Strengths

- Knowledge & Expertise
- Establishment
- Product Quality
- Product Definition
- Service & Accessories
- Image
- Pricing Policy
- Customer Focus
- Planning

Weaknesses

- Manpower Resources
- Financial Resources
- Knowledge & Expertise
- Lack of Customer Focus
- Product Orientated
- Pricing Policy
- Image
- Sales/After Sales Support
- Planning

Threats

- Government Legislation
- Industry Codes of Conduct
- Barriers to Entry
- Price Wars
- Changes in Customer Attitudes
- Imports
- New Technology
- Economic Downturns

Opportunities

- Government Legislation
- Industry Standards
- Monopolies
- Market Niches
- Changes in Customer Attitudes
- Exports
- New Technology
- Economic Upturns

Assessing strengths and weaknesses helps to identify areas where there is the internal power to either, build on the issue, should it be a strength; or overcome the issue, perhaps through training, recruitment of an expert etc., should it be a weakness.

Assessing threats and opportunities helps to identify areas where directly, there is no control; however if identified early enough, it maybe possible to develop contingencies to counteract the affect they could have on the business, or to exploit the chances offered.

A little story:

In the 1980's a family owned steel fabrication company experienced rapid expansion as a result of winning a contract to supply a local 4x4 manufacturer with nudge bars. The product had become a very popular accessory on all new vehicles and 80% of output was fitted with one of the company's nudge bars.

The net effect on the company was that its turnover increased from hundred of thousands into several million pounds and employee numbers grew. It expanded into selling nudge bars to other 4x4 and van manufacturers and this market accounted for 90% of its turnover.

One day a 4x4 motorist hit a child who ran into the road directly in front of the vehicle. The conclusion to emerge from the subsequent coroner's inquiry was that the child could have been saved if the vehicle had not been fitted with a nudge bar.

Within a year, only 20% of new 4x4's and vans were sold with a fitted nudge bar. The steel fabrication company's turnover plummeted and the majority of its employees were made redundant.

THREAT to a business:

The product may attract adverse publicity and so loose market interest.

OPPORTUNITY to another business:

A polystyrene manufacturer looks at how they can develop "Soft" nudge bars and so satisfy the market's desire for an attractive vehicle accessory, without threatening life.

Have a go at a S.W.O.T. chart for your company, you will find one to complete in section 2.1. of your workbook.

2.2. PROFILING OUR PRODUCTS

If you offer more than one product or service, list the categories you provide and estimate their respective contribution to turnover during the last three years. A table for you to do this, is already set out in section 2.2. of your workbook.

The box at the base of this exercise enables you to highlight any immediate observations with reference to products and services that may be experiencing growth or decline.

- Were you aware of these patterns?
- What are your intentions with reference to helping those groups experiencing growth, to realise their full potential?
- What are your intentions with reference to counteracting the loss of revenue from those groups experiencing decline?

2.3. PROFILING OUR CUSTOMERS




In section 1.2. you were asked to categorise your customers into common groups. In section 2.3. of your workbook, list those groups and their respective contributions to turnover during the past three years.

Once again use the box at the base of this exercise to highlight any immediate observations with reference to customer groupings that may be experiencing growth or decline; then repeat the 3 questions asked in section 2.2.

2.4. COMBINING OUR PRODUCT AND CUSTOMER PROFILES IN SEARCH OF GROWTH

From your attempts at section 2 of the workbook so far, can you use your conclusions to determine which product/customer areas you should be focusing on to maximise short term to long term growth potential. Can you also determine which you should be deleting in order to ensure that they do not hamper your development opportunities? The following diagram is designed to assist you with this and is repeated in section 2.4. of your workbook, so that you can complete it for your business.

Actual/Potential Contribution To Turnover

		High	Low
Actual/Potential Market Growth	High	 <p>Therefore, the groupings determined here are the star areas that the company should be focusing on developing for mid to long term growth. Ie. They are tomorrow's core revenue earners. (Cash Cows)</p> <p>To realise their maximum potential the company should be planning how best to market these products to their respective target customers in order to gain a reputation and market share early.</p>	<p>?</p> <p>The groupings here are products/customer areas that the business would like to attract because superficially opportunities look good.</p> <p>However the business lacks knowledge on how to check the viability of this opportunity and also exploit it.</p> <p>The business will probably require outside help to review opportunities for these groupings and for those that look positive, further help will probably be required to realise the potential properly.</p> <p>Those latter items should be tomorrow's stars</p>
	Low	 <p>Referred to as the cash cows, the product/customer areas falling into this category are today's "bread and butter" earners for the business.</p> <p>However the business has to confirm how it will maintain and build on revenue presently achieved from its cash cows as the market place is indicating that it is tiring of them.</p>	 <p>Referred to as the dogs, the product/customer areas referred to here are often the areas upon which the business was originally founded and built.</p> <p>Unfortunately with the advent of time the market place no longer wants the product and the business has foolishly retained it in the portfolio out of sentiment.</p> <p>The downside is that retention of a business's dogs takes focus off the stars and so hampers development.</p>

2.5. UNDERSTANDING OUR COMPETITORS

You should check out and review your competitors on a regular basis. If you don't know who they are, you need to find this out.

Checkout competitors by:

- Carrying out an Internet search, to see who/what comes up.
- Reviewing websites to see what is being offered and who the target audience is.
- Looking competitors up in a trade directory.
- Buying competitor products and trying them out.
- Asking your customers what they think of competitors.
- Looking up their accounts to identify their sales performance.

Once you feel you have reasonable knowledge about competitors, assess the strengths and weaknesses of those that you particularly feel pose a threat. Use the table in section 2.5. of your workbook to help you with this.

This exercise helps a business to determine how it could:

- Emulate their strengths, only better.
- Chip away at their weaknesses with a view to taking their market share.
- Assess whether the two businesses face the same threats and opportunities and what each is likely to do about them.

By finding out the turnovers of a cross section of competitors, together with the turnover for the industry as a whole, usually available by S.I.C. code*; a business can then estimate its market share and position using the following calculation:

$$\% \text{ Market Share} = \frac{\text{Company Sales Revenue}}{\text{Total Industry Market Sales}} \times 100$$

In finding out the turnovers of some key competitors, usually available within major business directories or, through obtaining a copy of their accounts from Companies House (This service is now available through a number of internet based agencies), a picture can be developed of how the business is performing against some of its key rivals.

Repeating this exercise to cover a period of years, ie. 3 to 5, enables the rate of growth for the business to be compared against those of its key competitors. After all, if the business has an annual average increase in turnover of 10% for the last 5 years, its management may consider this performance to be good. However without market comparison, there is no formal assessment as to how good this figure really is.

*See appendix 1

Analysis of the accounts for both the business and its key competitors, enables the company to measure and assess performance in more detail. Some of the more common financial ratios that are useful to compare are:

Return on Capital Employed:	$\frac{\text{Net profit Before Tax}}{\text{Capital Employed}}$ <i>(Issue Capital + Retained Profits)</i>	To identify the return on the investment of capital employed within a company. Useful to compare the rates of growth across competitors.
Gross Profit %:	$\frac{\text{Gross Trading Profit}}{\text{Sales}} \times 100$	This can often be identified for a S.I.C. code and so allows for direct comparison of own performance against the industry as a whole.
Acid Test:	$\frac{\text{Current Assets (Less stock)}}{\text{Current Liabilities}}$	A declining figure suggests a rising overdraft.
Turnover per Employee:	$\frac{\text{Sales Revenue}}{\text{Number of Employees}}$	A measure of efficiency and also an indicator as to whether employees are used efficiently to contribute towards revenue generation.
Profit per Employee:*	$\frac{\text{Profit}}{\text{Number of Employees}}$	An additional indicator to the above to identify whether an increase in employee numbers has contributed towards an increase in profits.

** Can be gross or net, providing that the measurement is consistent across all accounts being compared.*

When conducting such evaluations it is important to ensure that like is being compared with like. For example, if a comparison is being made across a number of manufacturing companies, then one company's figures may appear distorted, not because they are inefficient in their performance etc., but because they factor a proportion of their output. Additionally, a company investing in long term initiatives could in the short term experience a decline in their profit per employee figure because employees are being recruited into research and development rather than direct output.

2.6. CHAPTER SUMMARY:

Carrying the theme raised in Chapter 1 forward, this chapter expanded into exploring:

- Examining the current market position of your business.
- Identifying the areas of your business that you should be focusing on for future development and, areas that you should be winding down, in order to ensure that their future lack of performance does not inhibit your growth.
- Appreciating how competitors' activities can impact on your business and how your business can learn from their actions.

Next we shall move onto reviewing the profile of different market groups, in particular for us, the profile of different user groups; together with the value of market research in understanding these parties better and therefore how to satisfy their expectations.