

Increase Profitability Through Market Penetration

Market Penetration is a growth strategy that involves selling more of your current products or services to your current target market. Although there is no radical change to the company's corporate strategy, it often provides a significant opportunity to increase both revenues and profit.

Understanding Risk and Growth

When most business owners consider how to grow they tend to think of new products to launch. This can be risky. For example, selling new products often involves a learning curve as companies become familiar with selling and servicing a new technology. In other cases you may need to procure, store, or distribute these new products differently than with your current product line. If selling services, you may find that subtleties in the service delivery process or customer expectations will make or break your success with this expansion.

Entering new markets may also involve a considerable level of risk. A market is an identifiable group of customers. Because you are selling to new customers you may have to develop an understanding of how their purchasing habits and motivations to buy differ from your current customers. This market may require considerable changes to your marketing strategy, such as breaking into new distribution channels.

Selling more of your current products and services to your current target market is the least risky of growth strategies. You know your business. You know how your current customers buy, what motivates them, and how to sell your current product or services. You have the advantage of momentum that can serve as a foundation for adjustments to your current sales and marketing process. You have the

staff, operational infrastructure and facilities in place to serve this market. The challenge becomes making meaningful adjustments to how you run your business, rather than stepping into unfamiliar territory.

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Understand the Value of Incremental Sales

Businesses grow in stages. Overhead is often increased with the expectation for future growth. As a result, most businesses have unused production capacity.

Any incremental sale will result in only the variable cost of one more unit produced. Therefore, a minor increase in volume provides considerable contribution margin and dramatically impacts the profitability of your company.

Increasing Market Share

The most obvious form of Market Penetration is to increase market share. This involves attracting your competitor's customers. Many business owners naturally begin to consider tactical actions that are focused on immediate sales. Price discounting is an obvious example that may provide a spike in demand for your product or service. But customers attracted by low price are opportunistic, and rarely will repurchase at regular prices. At best, you may clear out some undesirable inventory.

Permanent market share is more likely obtained through increasing the perceived value you offer relative to competitors. This may involve making adjustments to what



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you offer the customer in order to genuinely improve your value, or simply communicating what you offer so your customers actually understand the relative benefits of your product.

Increasing Usage

As an alternative to increasing market share, a company can use a market penetration strategy by increasing product usage. Small changes to the business will often directly increase the volume or frequency with which customers use a company's products and services.

Take time to consider how the customer uses the product or service, and the situations that hinder increased usage. There may be minor barriers that can be addressed with something as simple as a revised delivery schedule. More complex solutions may be required such as altering the consumer perception for the intended use of your product or service. A computer retailer with a service department, for example, may promote the productivity benefits of regular maintenance rather than just fixing a broken computer.

Creating Barriers to Entry

It is crucial to understand how to leverage your company's strengths when considering strategic options.

For example, operating with the lowest variable costs in the industry is a strength that can be leveraged to help ramp up sales while establishing a barrier to entry. Many companies with superior technology or unique processes have lower variable costs than competitors and therefore higher gross margins per unit sold. Rather than lowering your price to gain market share, it may make sense to spend money on increased advertising or sales support. Your new customers will be more loyal than price-shoppers that would have responded to a lower price. With substantial market share and a prominent sales and marketing presence, your company may have established a barrier to entry to deter potential competitors from entering the industry.

Do Something Different

Although marketing penetration involves selling your existing product or service to existing customers, you still need to do something different. Business as usual will result in the same results as you've had in the past. Growth will occur when you alter your strategy.

Be innovative when considering changes that are genuinely valuable to your customer. Some options to consider include:

- **Educate customers:** It may be valuable to launch a promotional campaign that informs customers of the features, benefits or even just the availability of your product or service. Many times people are simply unaware of your product or service and how it is relevant to their situation.
- **Make it easy to buy:** You may be able to increase the customer's ability to buy through increasing access to credit.
- **Broaden distribution:** Convenience, such as making a product available in more locations or altering when your service is available, may be a catalyst for sales.
- **Generate referrals:** Your existing customers likely know other people in your current target market. It is possible to leverage your relationship with an existing customer to inspire referrals. This materializes differently in each industry, as the purchase process and motivating factors will vary. As a simple example, consider a health club that offers its members an entry in a draw for a spa-weekend vacation for each referral.
- **Altering product usage:** A simple change to a product, such as incorporating smaller sizes for more convenient or novel uses, may inspire additional purchases.

The complexity of pursuing growth exists in the fact that each company is unique, and each industry requires a different set of considerations for strategies that are both practical and have a high likelihood of success. By thinking carefully and creatively about how to increase market share or product usage, you may be able to increase profit without substantially increasing risk.