# How Predictive Insights Unlock Explosive Growth In New Markets

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## Introduction

Conventional marketing wisdom states that it's easier to sell a new product to an existing customer than to find a new customer for an existing product. Selling to a new market segment is harder still. But market extensions can also be profitable and are often the key to continued growth. So rather than avoiding them, many businesses need to learn how to do them more effectively.

## Why Market Expansions Fail

One root cause of failed expansions is marketers targeting the wrong segment. Too often, new markets are chosen based on little more than managers' intuition about who might find their products useful. Marketers who try to be more diligent in their research quickly find that traditional data providers and analytics tools can offer little more than questionably-accurate company counts by industry and revenue. This doesn't come close to providing the information marketers really need: nuanced profiles of different segments with reliable opportunity assessments and indicators of which groups are most likely to become customers.

Faced with a lack of good external information, marketers often fall back on examining their internal data. This seems more promising: after all, it seems reasonable to look for companies that are similar to current customers. Moreover, data about your own customers is vastly more reliable than data created through estimates or surveys. And your relationship with those companies means you can ask them directly about their business and why they purchased your product.

But internal data can be misleading as well. Buyers outside of your core customer base are by definition unusual, so they may not be typical of companies within their own industry, either. Exactly how they're atypical can vary: they could be larger or smaller than their peers, growing faster or slower than average, have an unusual attitude

**Case Study: Finding the Right Segments**

**Challenge:** After resource-draining web crawls and CRM appends, this small business marketing and payments software provider saw businesses on Foursquare within their target verticals converted to customers at an above average rate. But they couldn't determine the total available market of prospects on Foursquare, nor how much longer they could allocate valuable engineering talent toward operationalizing data for marketing.

**Solution:** The client used Radius to achieve a holistic view of everything from the external signals that predicted success based on historical performance, to the entire market opportunity and current penetration within any U.S. segment. Combining customer segmentation with market segmentation, the customer found that businesses with Twitter converted 40% more often than businesses with Foursquare and the market contained 3x as many opportunities. By targeting Twitter rather than Foursquare users, the client expanded its target market and increased its chances of success.

towards technology, face an atypical operating environment, or have unusual financial resources. Understanding these relationships requires information about the entire marketing, not just your own customers. This information is difficult to obtain, changes frequently, and is hard to store in CRM or marketing automation systems.

Whatever the reason, you can't assume that a large number of buyers in a particular industry means that industry as a whole is a good target for expansion. Indeed, unless you know the number of companies in the entire industry, you can't judge whether your current customers from that industry are a small or large percentage of the whole, let alone how many additional companies from that industry are likely to buy in the future. Without careful analysis and accurate data, it's easy to mistake a small, unusual subset for a large market opportunity. And it's even easier to avoid recognizing the mistake until after you've made a major investment in pursuing the opportunity that doesn't exist.

## Applying the Right Insights to Your Market Expansion

Market expansions always require making judgments about which segments to pursue and which to avoid. It's never certain how things will work out but good information and solid analytics can tilt the odds in your favor. Here's what you need to know:

- segment size. The key to any segmentation is defining the segments correctly. In practical terms, this means finding groups of buyers who behave similarly. Business marketers usually start with segments based on industry and company size, but that's often not enough. Other factors that may influence behavior include macro differences such as growth rate and profitability, and micro differences such as technologies used, competitive products in place, or location. There's considerable art in coming up with an appropriate segmentation, and the right segmentation may change depending on how you design and market your product. Detailed, reliable external data will always be needed to estimate the number of firms within whichever segments you eventually define.

| topics | signals and analytics to use |
|---|---|
| segment size | universal company list classified by industry, growth rate, technology used, etc. |
| current penetration | current client list classified by same variables as used for segmentation (industry, growth rate, etc.) |
| available market | predictive analytics that estimate the likelihood of purchase by each company in each segment. Based on data for all current customers, not only customers in the target segment. |
| customer value | predictive analytics that estimate the value of purchases by companies in each segment. Based on revenues and costs associated with current customers. |

  

- current penetration rate. Once the segments are defined and quantified, you still need sophisticated technology to match the data to your customer records. Only then can you find how many of your current customers are in each segment and to calculate the penetration rate.

- available market. This is an estimate of how many companies will eventually become your customers if you pursue the segment aggressively. It's more speculative than current penetration but can still be based on real information including how closely segment members resemble current customers and which factors predict future purchases. Working with detailed company level data, marketers can estimate the probability of purchase for each company within the segment and then base their over-all potential penetration rate on that. This is a much more realistic approach than applying a single percentage to the segment as a whole. The trick is having the right data and advanced analytics to develop the company-level probabilities.

  The difference between available market and current penetration is the percentage of companies in the segment who might become customers in the future. It's important to calculate this to avoid pursuing segments where there's little potential for growth because all likely buyers are customers.

- value per customer. This is an easy factor to overlook, since most analyses aim simply to estimate the number of customers. But the revenue per customer is also obviously important, along with related factors such as sales costs, support costs, and profit margins. Predicting these is especially vital when dealing with new market segments where customers may behave differently than current customers by making larger or smaller purchases, negotiating higher or lower discounts, or absorbing more or less sales and support cost. Again, your estimates will be based

**Case Study: Tech-Savvy Businesses Respond 2x as Often**

CEB Research is an advisory service for enterprise marketers. CEB worked with Radius to analyze results of an outbound campaign to 3.4 million U.S. businesses. The company found that small business owners primarily use social media to market their own businesses, not to interact with suppliers. But small business owners' use of social media still generates tremendous amounts of data that can be leveraged to create new opportunities for enterprise marketers.

- Businesses with social and web presence respond to marketing campaigns up to 2x as often
- Businesses with more active customer communities are more likely to respond to marketing offers
- Businesses with one online review have a 37% higher response rate than businesses not on review sites
- Businesses with 10 or more reviews respond 2.3x as often as businesses not on review sites

Key small business social media indicators captured by Radius include:

- Online presence (website, social pages)
- Web technologies (ecommerce, analytics)
- Online advertising (daily deals, promotions)
- High review ratings

  

on a combination of experience with current customers in the target segments, experience with other predictors such as company size or sophistication, and some informed intuition.

These variables can be combined to calculate the expected value of a market segment using the following formula:

segment value = (number of companies) x (% future customers) x (value per customer).

As described above, % future customers = (available market) – (current penetration).

## Prioritizing Your Top Markets

Make no mistake: the numbers produced by this calculation are not as reliable as a crisp formula seems to imply. But even approximate figures provide a useful ranking to guide company thinking about which segments to pursue, how, and in what sequence. They can surface insights such as:

- a large segment with middling propensity may still generate more revenue than a small segment with high propensity
- a small segment with high average sale and high propensity may be worth pursuing even though you'll exhaust it relatively quickly
- a large segment with low average value and middle propensity may be profitable if pursued with low cost marketing tactics
- several small segments that can be pursued with similar marketing materials and audiences might be combined into one larger segment for planning purposes, giving it a higher ranking than any of the individual segments by themselves

## Looking Beyond the Data to Understand the Customer

This rational approach is only as good as the data it's based on, and the data is only as useful as the insights it helps you derive about your customers. As we've already seen, traditional data sources are nowhere near adequate for this type of analysis. Fortunately, much richer, real-time information is now available. These external signals can tell you a lot about your customers and markets: their personalities, priorities, preferences, and even needs and budget. The key is not just collecting the attributes, but determining which signals are important to your business based on history.

This information is based on a combination of new data sources and advanced analytics. New sources primarily derived from digital media include:

  

- Company Web sites, which provide both static information, such as industry and locations, and dynamic information, such as press releases announcing executive changes, new product launches, financial reports, and office openings.

- Technical data derived from digital messages, such as which marketing automation system sends the company emails and which Web analytics tools track site visitors. Sometimes, the specific products being used are important – for example, if you're selling a competing marketing automation or Web analytics system. Sometimes, the simple presence or absence of any such technology is an important indicator of the company's propensity to buy other types of products or services.

- Social and public interactions, such as Twitter messages, LinkedIn profiles, Facebook comments, and Yelp reviews. Sometimes you can use actual contents, such as questions about a specific topic, job titles used at a company, or customer complaints. But more widely available measures, such as social and online presence, are often powerful indicators of need for a solution or responsiveness to social messages.

- Postings on job boards like Monster.com or Dice. These can give specific information about the products and technologies a company is using, which is extremely useful to companies looking for prospects using complementary or competitive products. They can also indicate the business or product directions a company is moving in, as well as show general information about company size, growth, and locations.

- Other public and private sources, such as government contractor lists, patent filings, trade associations, and directories. These can provide specialized information, alerts of important developments, and basic lists of companies by industry.

It's important to realize that crawling the Web to read this information is only the starting point in making it useful. Advanced techniques such as natural language processing are needed to extract useful information from the data, properly classify it, and identify significant events. Other methods determine which types of information constitute important signals and which are largely irrelevant. Some signals, such as growth rates, require comparing company data over time, so it's important to build a history and track changes.

## How to Win Customers in New Markets

Segment selection is just one step in entering new markets successfully. Other key tasks include product configuration, which includes pricing and service offers; message development; contact strategies, which include advertising and sales approaches; and targeting individual companies. The advanced data sources and analytics used for segment selection can support those as well.

- Product configuration must be tailored to needs of the new segments, which may be different from your current core customers. External sources can give insights into basic factors such as the likely scale and scope of customer needs – for example, if companies in the new segment are substantially larger than your existing customers, they will probably buy in larger quantities or need higher capacities. Other data such as company growth rates, profitability, and installed technologies will help marketers set pricing, decide on implementation and support bundles, and determine what other systems they'll need to connect.

- Message development is based primarily on personas. Information about job titles, technical skills, training levels, industry niches, products used, and other factors all help draw a picture of likely buyers, which allows marketers to develop messages that will convey their messages effectively. Profiling non-customers in the target segments provides additional insight and clarifies whether your current customers are typical of their industry or exceptions. The resulting understanding of buyer characteristics can support powerful personalization.

- Contact strategies can apply signals such as social network activity to identify the types of media most likely to reach target companies. More fundamentally, information on the size and likely purchase rates of the target segments will help marketers decide which groups can support high-cost contact methods such as direct sales calls and which need to let prospects first identify themselves through approaches like search marketing.

| **topics** | **signals and analytics to use** |
|---|---|
| product configuration | predictive model that indicates the likely product needs (models, quantities, performance, etc.) of customers in each segment; based on correlation between purchases and characteristics of current customers |
| messaging (personas) | aggregated profiles of individuals and companies within each segment, including titles, skills, departments, etc.; clustered to identify buyer personas |
| contact strategy | aggregated profiles that show social networks, interests, locations, etc. to help identify best ways to reach buyers in each segment; also, predictive models to estimate purchase propensities, product configurations, and likely value of customers in each segment to find most cost-effective sales approach |
| targeting | predictive model that estimates purchase propensities, product configurations, and likely value of individual companies; used to target marketing and sales efforts |
| response analysis | post-launch insights into results of different marketing approaches to help marketers make adjustments and judge success |

  

- Targeting can be based on predictions of which individual firms are the most likely buyers. This can guide outbound marketing efforts as well as direct sales. The predictions can be based on models of current customers in the target segments and on other factors that predict purchases across all of the company's experience.

- Response analysis is a further advantage of advanced approaches. Historical performance data is already available within marketing automation and CRM systems. Once this is connected with external data and predictive segment-level analytics, marketers can see who is responding to specific approaches. Marketers can then adjust their messages and methods to ensure they are attracting enough of the right customers. This speed increases the chances of success and, sometimes equally important, allows marketers to limit their investment in segments that turn out to be unproductive.

## Conclusion

Entering new markets will always be difficult. But marketers can reduce their risk by taking advantage of new data and analytical methods that give them a clear picture of target segments before they make a major investment. This allows marketers to focus on the most promising markets and to develop approaches with a higher chance of success. The same resources help marketers fine-tune their approaches as they launch their expansion programs, which further reduces risks and gives a clear picture of results. The value of predictive methods is immense, and applying them is remarkably simple. Any company considering a market expansion should give them a try.

  

## About Raab Associates Inc.

Raab Associates Inc. is a consultancy specializing in marketing technology and analytics. Typical engagements include marketing architecture planning, business needs assessment, technology audits, vendor selection, results analysis, and dashboard development. The company also consults with industry vendors on products and marketing strategy

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