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Market Share Management Using PPH®

September 2015

Market share is the measure of a company's performance that puts sales and profit into context. Companies with the highest market share are market leaders and can reliably generate price premiums, customer loyalty, and better share earnings than their competitors. Business analysts recognize the value of market share analysis, but in most organizations only the senior management team and the board of directors will focus on this measure.

For companies, the issue is interpretation of market share. How can a market share measure be turned into action? Even for market leaders, this issue can be a source of frustration. Frank Lynn & Associates has used a proven market share management formula, PPH®, for over 40 years to help clients maximize the effectiveness of their sales and marketing initiatives. This framework has never been more relevant than it is today.

Winning a Sale and the PPH® Formula

Winning a sale requires that all the elements to meet the customer's needs are aligned and present:

- **Product** – must be fit for purpose, meet any specification requirements and be priced to be considered equivalent to competitive choices in the mind of the customer
- **Presence** – the product needs to be present in the sales channel that the customer buys from and, furthermore, must be present to the actual sale (offered/available to the customer) at the time they are making a purchase

- **Hit Rate** – the sale must be won against the available competition when your brand is considered by the customer at the final decision point

If any of these elements are missing, then the sale cannot be won. A perfect product cannot win a sale when it is not available for the customer to consider and the best sales process in the world cannot overcome a product that does not meet the customers' needs. This means that each of these elements can be assessed as a percentage, represented as a pie chart, and when multiplied together give the total market share, as depicted in the PPH® Formula graphic on the left.

Managing Market Share

The pie charts, shown on the left, are a good way to identify the contribution of each component to the overall market share, but it becomes more useful if the analysis can be turned into a sequence of goals for the different levels of the organization.

By building a "hierarchy" of market share, we can create suitable assessment criteria for all managers, depending upon the nature and level of their authority. In this way, all managers can have related, but separate, targets that help the organization generate congruent goals and manage contributing activities. If the PPH® market analysis can be shared with all levels of the organization, then it becomes a link between all parts of the business and the reference point for their contributing value.

By breaking market share into its contributing elements, a company can build a valuable

tool for measuring performance and managing growth, and each element can be used to identify a part of the market opportunity that can be targeted. This means that:

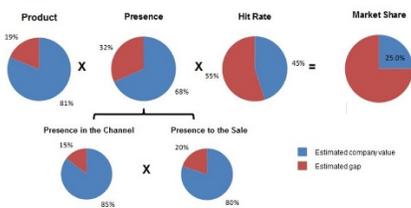
- Total market value can be divided into Addressable and Unaddressable opportunity
- Addressable market value can be divided into Covered and Not Covered opportunity
- Covered market value can be divided into Quoted (offered) and Not Quoted opportunity
- Quoted market value can be divided into sales that are Won and Lost

This representation of market opportunity as a "waterfall" with clear opportunity gaps informs actions and investment choices. This PPH® analysis also separates market share into elements that different levels of management can focus on to increase the company's overall market share.

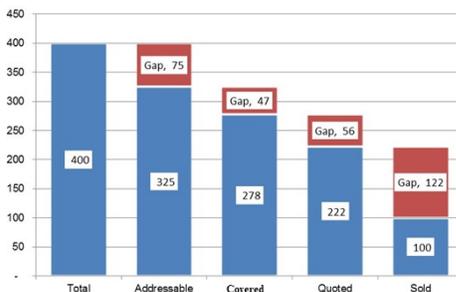
Total Market Share.

Members of a company's senior management team and its board of directors have to respond to the total company opportunity. Their product development or acquisition strategy impacts how much of the market is addressable; their sales and channel management strategy impacts how much of the market is covered/quoted; and finally their pricing and advertising strategy combined with the effectiveness of the company's sales resources determine its sales hit rate. The business analysts' comment on market share and the senior leaders need the capacity to respond to these assessments in a structured fashion. The PPH® analysis gives the senior team the required structure.

PPH® Formula



PPH® Waterfall



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Addressable Market Share.

The territory or country managers can only be held responsible for generating the best Addressable Market Share. As they are not usually in charge of the factors that increase the size of the Addressable opportunity, it is only appropriate that they should be assessed on the part of the market opportunity that they can impact. But their action plans to cover the market opportunity determine how much of the market opportunity is Covered and also determine the success of the sales effort. If they do not have authority over pricing or promotion, then they mostly impact the Covered and Quoted market success with less impact on Hit Rate.

Covered and Quoted Market Share.

The managers (including direct sales management) are responsible for sales, management, and relationship factors that contribute to the maximum Covered Market Share. In some cases they need to focus on getting their brand offered for sale (Quoted) more often and in other cases they need to work on winning the sales and ensuring that they have the most effective sales process.

Making Investment Choices

As well as a management tool, the PPH® analysis gives guidance on which investment choices will contribute to growing market share. The "waterfall" highlights the gaps and each of these gaps represents a specific category of market opportunity. Each category has a different solution(s) and is likely to have different timescales to generate a benefit. The outcome of the analysis suggests the nature of the actions.

Improving Addressable Market Size

requires senior management to develop or acquire products to increase the product range and it may also require wide-scale market education and evolution. For instance, selling more technical solutions not only requires that you have these more sophisticated products in your offering, but that the customers must be sufficiently advanced to demand this level of solution. Some of Frank Lynn & Associates' clients are market leaders in mature markets where energy compliance and fire protection standards are very high. When they take their products into other markets with lower standards, they may find that their products are considered too expensive until the market has evolved to demand these higher specification products. So changes to the size of the addressable market can be long term, expensive, and are unlikely to generate a market share benefit in less than three to five years.

Improving Covered Market Size

requires improvements in the channels that cover the market. The greater the variety of customers your brand serves, the greater the variety of channels you typically need to cover the opportunity. Some customers need advice from value-added sales channels, some need direct sales management, while others may need local indirect sales channels that deliver a "one-stop-shop" for their multi-brand, multi-product requirements. Every time a manufacturer chooses not to sell through specific channels, they reduce their covered market size. Changes to the size of the covered market require channel recruitment, expansion, support and management and are likely to generate benefits over a one to three year period.

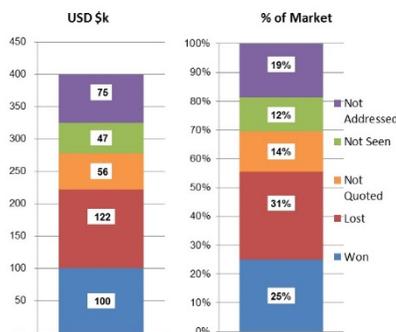
Improving Quoted Market Size and Sales Hit Rate

requires better channel and sales process management. The Quoted market size could be smaller because the indirect channel does not offer your product to certain types of customers or because your direct sales force have too many products to manage and do not give sufficient attention to new product launches. Your sales Hit Rate could be low because your salespeople are inexperienced and bid for all business whether they are likely to win or not. Improving market share within this category can be quicker because the opportunity lies within the existing business; so, although the size of the opportunity may be restricted by Addressable or Covered Presence issues, initial share gains can often be achieved within three to 12 months.

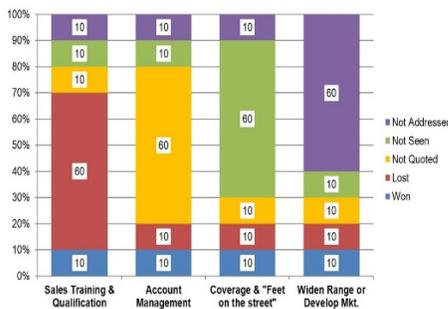
Assessing Market Size and Share

Typically, quantifying the size of a market and calculating market share is a complex process and, unfortunately, the less transparent the process, the less likely it is that a company can identify the actions that will make the biggest impact on growing market share. But Frank Lynn & Associates has developed a pragmatic approach to sizing markets that has been built up through many years of global client support. When combined with PPH®, this approach enables companies to estimate the size of the market. #

Simply put, the size of your market is equal to the amount that customers (existing and potential) spend each year to solve the problems that your brands' products and services address.



Different Problems, Different Solutions



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This means that the market size can be calculated by adding:

- Your brand sales
- The sales of competitors for your sales
- The estimated growth rate of the market

The assessments of addressable market, quoted sales, and win rate are then broken down by customer segment and by individual competitor. Experienced sales and marketing staff are usually excellent judges of the real competitive situation and the Frank Lynn & Associates approach, with supporting tools, facilitates a structured approach that guides teams to create effective action plans to increase market share.

As a consequence of this approach, our clients receive:

- Fast insight into their market share at all levels and can easily see what actions will most usefully contribute to growth
- Deep insight into their competitive position by segment, territory, and sales channel
- Shared insight across, and up and down the organization which motivates, informs, and measures contribution

If you feel that market share is important to your organization and are looking for tools to make it relevant to the whole organization then Frank Lynn & Associates can help.

The level of improvement a company can get from a structured approach to managing market share depends upon the company and the markets it serves. However, fast insights can be generated and put to use immediately.

- One of our building products clients discovered that their Russian salesforce was as competent as their U.S.

salesforce and that the reason for a lower market share was that the Addressable market was only 50% of the total market. Completely different investments were required to grow market share in Russia relative to the U.S.

- An industrial supplier understood that increasing the Covered market was likely to increase channel conflict because the market was essentially covered, but although the brand was in the channel they were not offered for sale. Increasing the Quoted market opportunity required working with existing channels rather than driving to continuously recruit new channels
- A leading infrastructure vendor identified that certain segments of the public utilities, where they have a dominant segment share, do not have an opportunity for significant growth, but adjacent segments could allow them to leverage their credibility and generate sales growth

The discipline and analytics inherent in a PPH® analysis enables management teams to drive performance improvements. Management teams understand what it takes to grow market share, at all levels, and they can focus on the elements of market share that generate the greatest returns, while understanding the timescales associated with each action.

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www.franklynn.com

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