



# Considering Market Expansion? Do Your Research

## A Guide to Successfully Diversifying Your Market Focus

At Access/Information, we have worked with numerous companies that are considering expanding into new market areas. Expanding into new geographic markets or new downstream industries can help diversify your offerings and lead to company growth. However, if the market is not properly vetted to identify a significant need, it can also lead to loss of revenue and failure of your investment.

When considering a market expansion business development strategy, it is important to first examine your own company. Understand what you currently specialize in, what your key customers value most in your products and services, and if you have the resources in place to expand your business.

We run into a lot of customers who have expanded into a new geographic territory, because a staff member was moving there, or a family friend lives in the area. Before any geographic expansion takes place due diligence needs to be done on the economic conditions and the competitive landscape in that area. Consider the following questions and conduct research to adequately answer them:

1. What is the viability of the market? – Assess the economy in this new territory. What industries are growing? How are employment levels? What are the demographics of the population?
2. Is there a need for the services that I can provide here? – There are a few things to consider here. One, are your services something of use to consumers or businesses in the area? For example, you would not need to sell hurricane shutters to consumers in South Dakota. Two, is the market already concentrated with companies providing these services? Again, going to Florida to sell hurricane shutters may also not be a good idea because the market is already heavily concentrated with established competitors.
3. Do I have the resources and strategic plan in place to effectively compete? – If you have done the research, and have data to support that indeed there is a market need, and that your product or service offering is unique in the area, make sure your business is in a place where it can support a geographic expansion. For example, California may be a geographic market that is ripe for your services, but if you are a Michigan company that requires boots on the ground to effectively compete it may not be feasible for you to expand so far away.

At the same time, the business environment you are operating in may value local relationships. It is imperative for you to have a plan in place in terms of how you are going to build trust and show that you are an expert in your field.

Some of the same considerations go into choosing to expand your service offerings to a different customer segment. A lot of companies look to expand into other industries, when the industry in which they are dependent upon experiences market vitality or an increase in competitive pressures. They may want to expand into an industry that is similar to theirs (such as moving from serving medical device companies, to serving pharmaceutical companies.) However, in some instances, the competitive pressures are the same in similar industries and both represent high barriers to entry, which can ultimately lead to investment failure. Just as when considering a geographic expansion, it is important to understand the competitive landscape in a new



industry.

Consider the following:

1. What is the level of market share concentration? – A market that is highly concentrated in which the top four companies own 90% of market share, does not leave many opportunities for new entrants. Additionally, some highly fragmented markets can also have heavy competitive pressures, if there is not a great deal of product differentiation.

Also consider what it is that makes companies operating in this industry successful. Is it specializing in certain areas? Is it access to key suppliers or vertical integration? Or is it an innovative technology that streamlines processes?

2. Do you have the expertise to effectively compete in this industry? – You may offer services that a certain adjacent industry needs, but do you have knowledge of industry drivers, trends, and regulations? Are there certain certifications that suppliers to this industry have to have? Does it require a different product design or integrated piece of technology?

A McKinsey study found that companies who successfully expanded into new activities, understood whether growth beyond their core services in a region or industry was either an opportunity or a risk. They also identified opportunities in which they could leverage existing capabilities and skills.

All of these questions and considerations can only be answered through thorough market research and an inward analysis of your company's numbers and capabilities. If you do not have the resources to conduct market research on your own, considering hiring an outside team of researchers. McKinsey reports that one out of five market entries are successful. And the cost of a failed expansion can be quite large. Target Corporation's failed expansion into Canada cost the company over \$2 billion in operating losses in less than two years, according to company reports.

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