
Market definitions and views on growth among Finnish firms 2011

Vectia and Add Value

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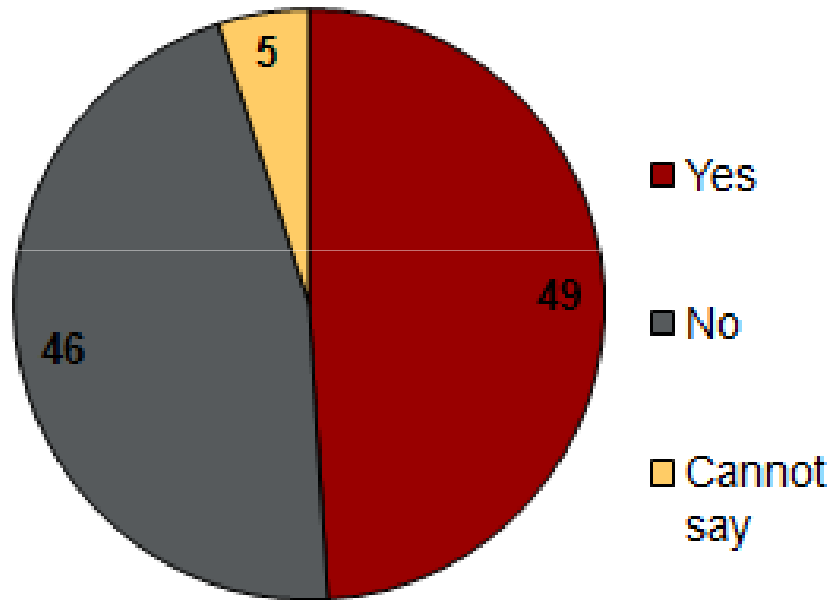
Execution

- > The study was executed by Add Value
- > The aim was to examine
 - > How Finnish firms define their markets and how they go about influencing these markets
 - > How Finnish companies evaluate their competition and their own growth opportunities.
- > Target group
 - > Firms listed on the Talouselämä TOP100 list
 - > All interviewees were management group members
- > Data collection
 - > During time period April, 7 - May, 13 2011
 - > In total 59 persons from different firms were interviewed
 - > The interviews were primarily conducted over the phone. In addition, four firms representing different industries were interviewed in person.
- > **The study covers 60% of Finland's largest firms.**

Market definitions and market design



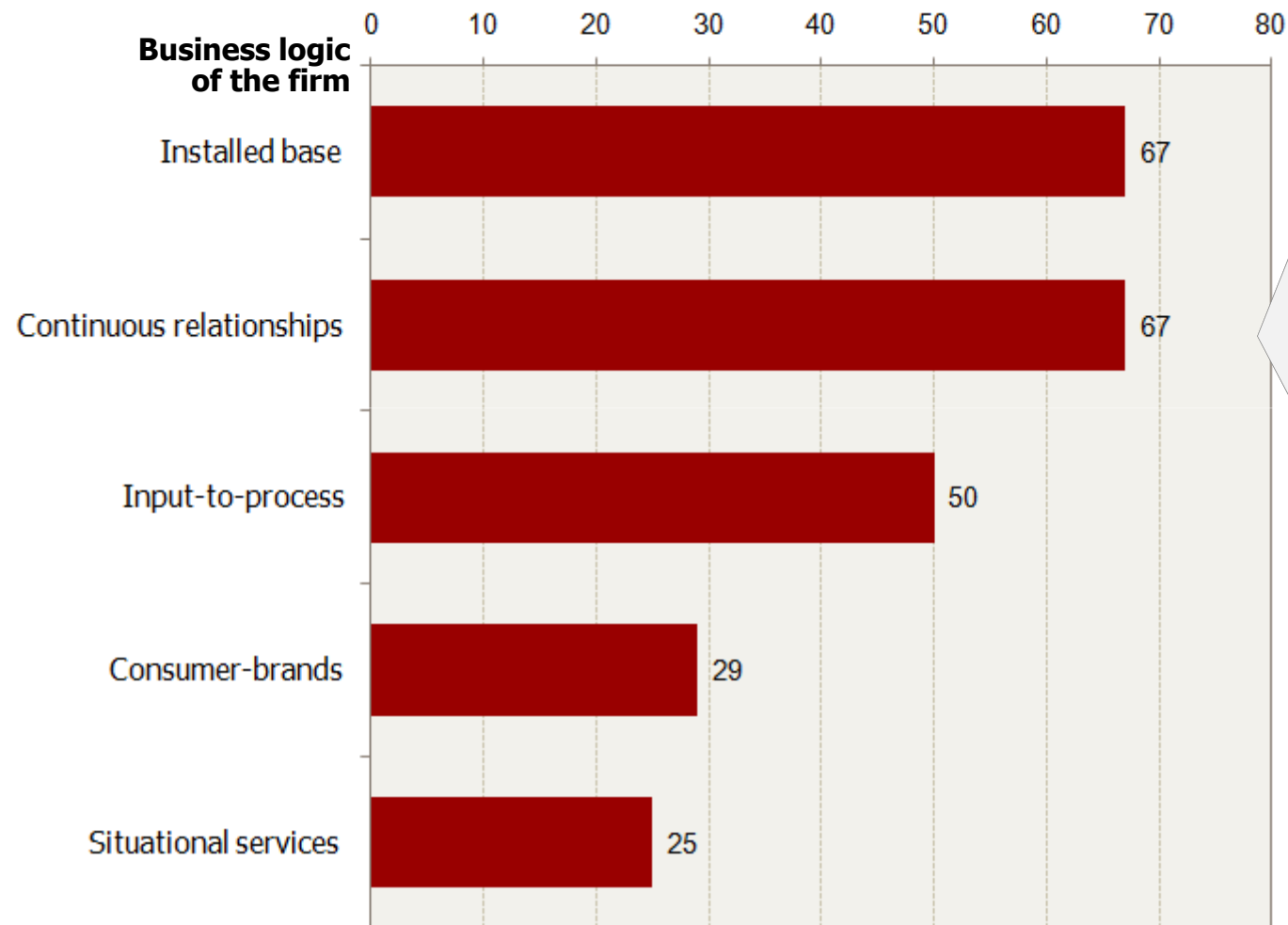
Is your market definition similar to your competitors'?



On average, half of the responding companies estimate that their market definition corresponds to the definition used by their competitors. However, the results vary strongly among firms representing different business logics. (See next page.)

Market definition similar to competitors' ?

Examination according to business logic

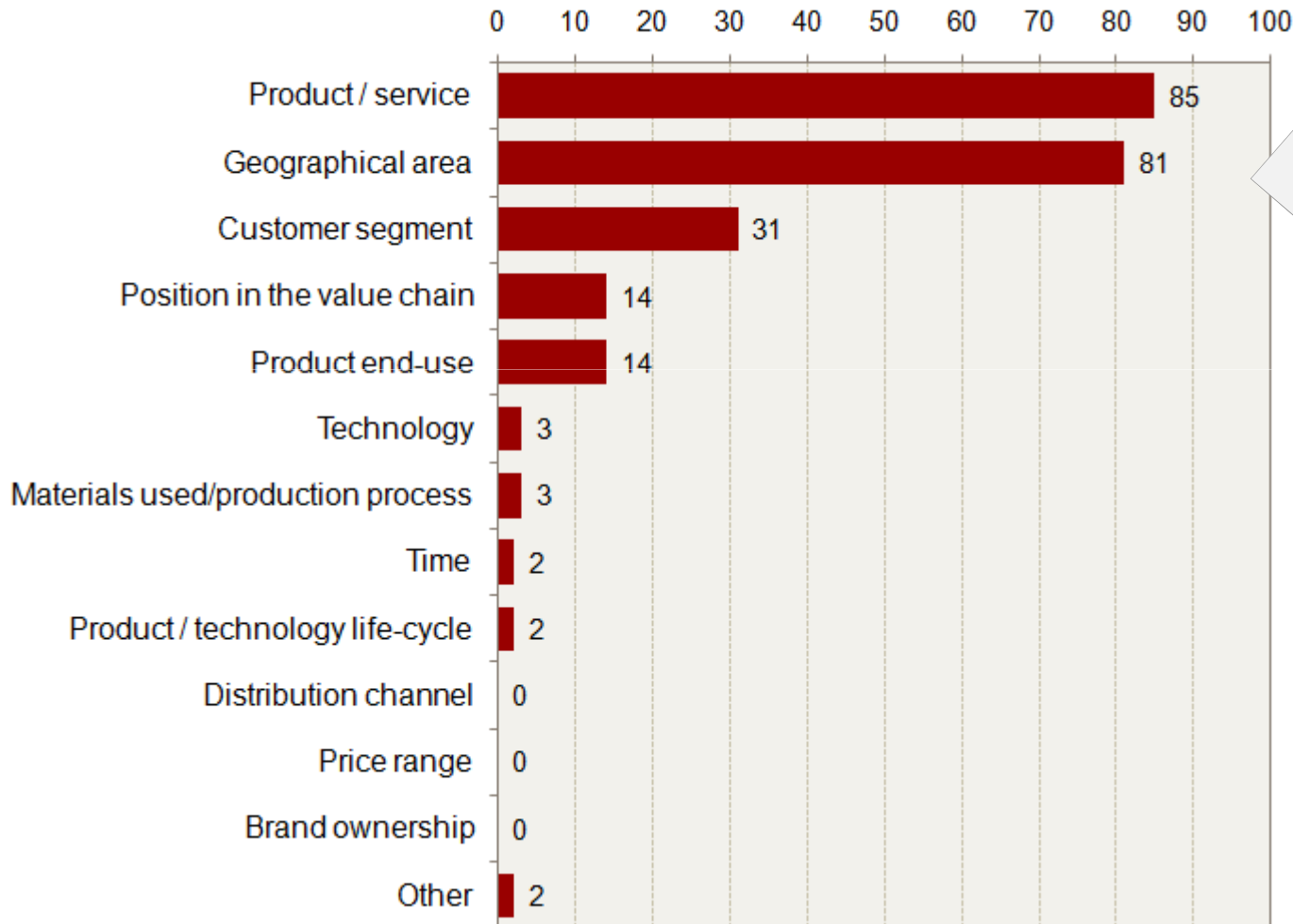


Description of business logics in appendices (see p. 15)

“Installed base” firms evaluate their market definitions to be similar to the those of the competition. These companies also strongly seek growth from new markets, often outside Finnish borders.

“Consumer brands” and “Situational services” firms, on the other hand, evaluate their market definition to be different from the competition, although the most important market definition criteria is the product/service sold. (See p. 16.)

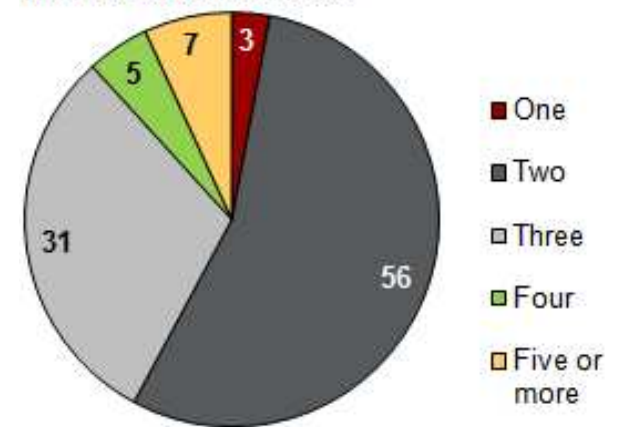
What kind of market definition do you use?



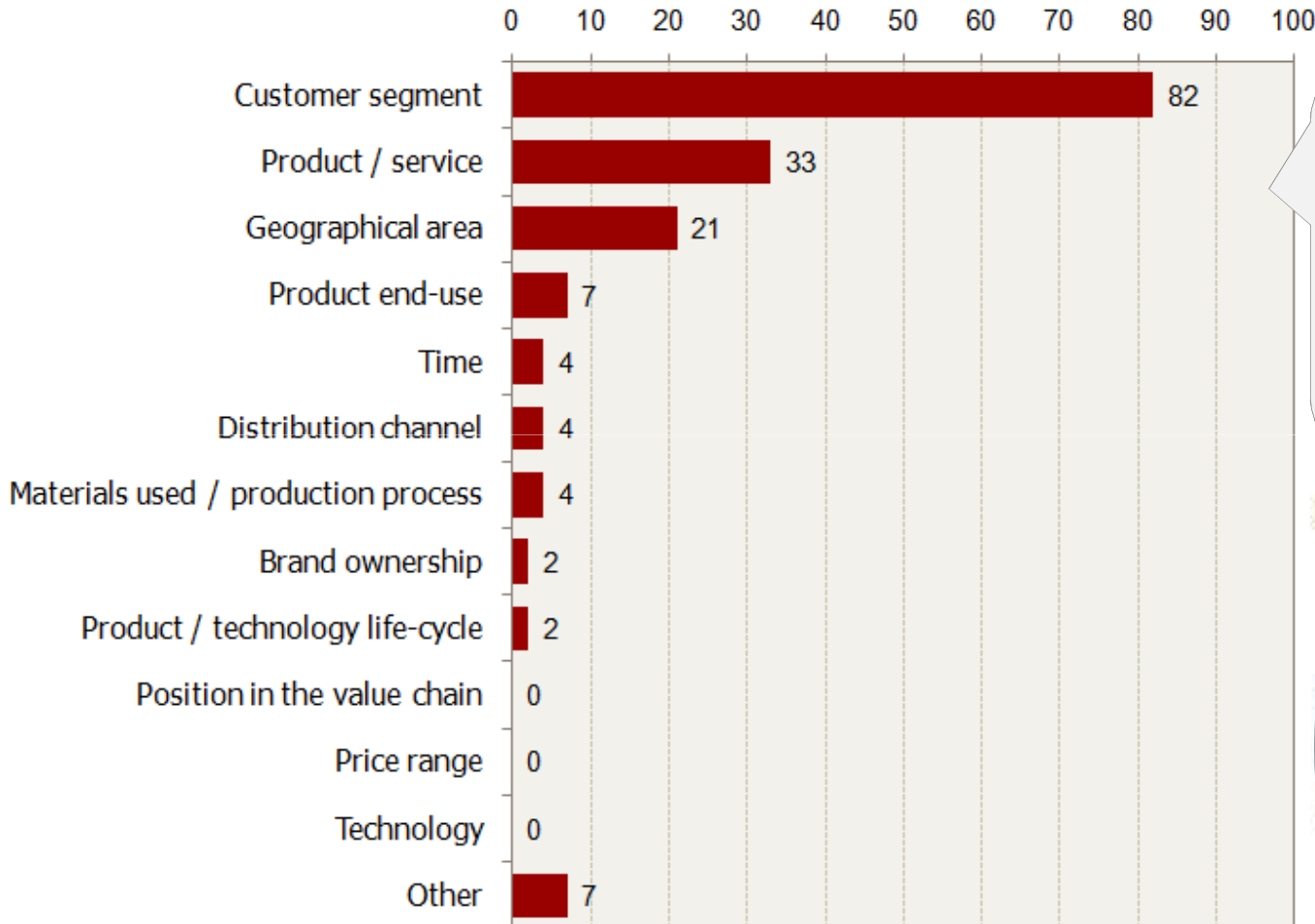
Most respondents define their market according to one or two criteria. The most commonly used criteria are the product / service sold and geographical area.

These results build a bridge to the classical product-market-matrix published by Igor Ansoff in 1957.

Number of criteria used



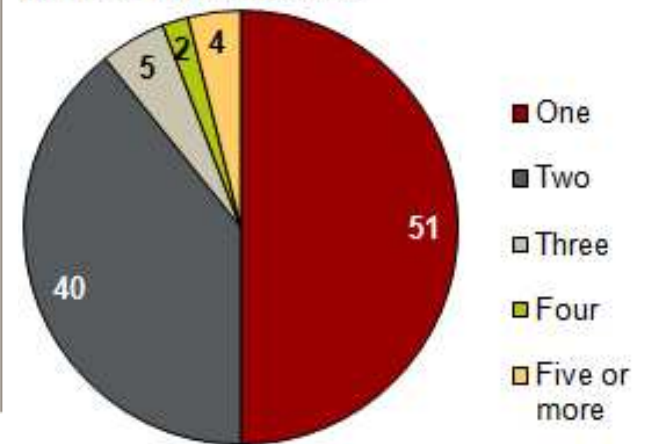
What kind of segmentation criteria have you used?



In market segmentation the clearly most commonly used criteria is customer segment.

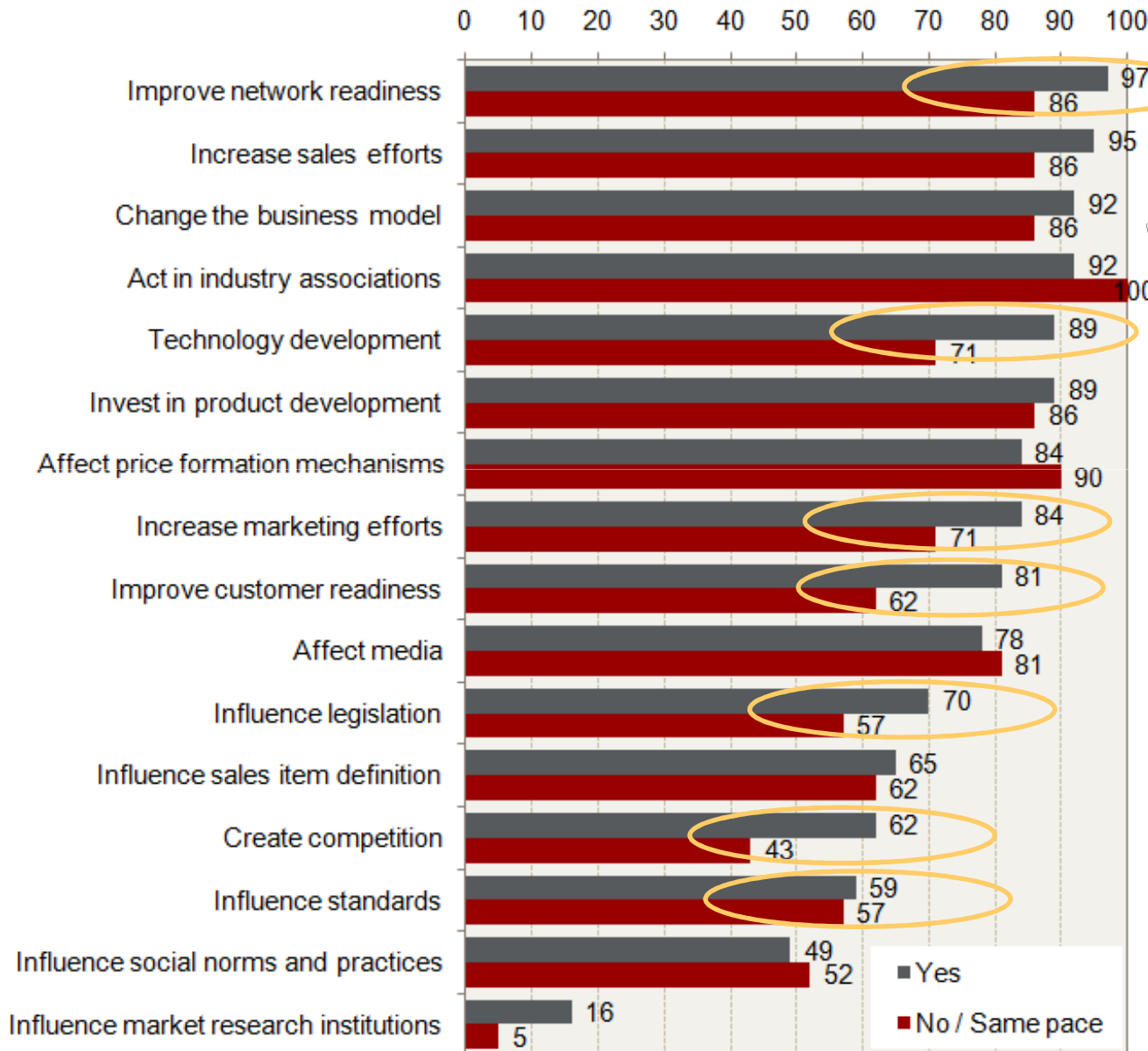
Based on the results we can say that the most important perspectives to managing markets among the responding firms are product / service, geographical area and customer segment.

Number of criteria used



Means to influence market development

Does the firm grow faster than the market (self assessment)

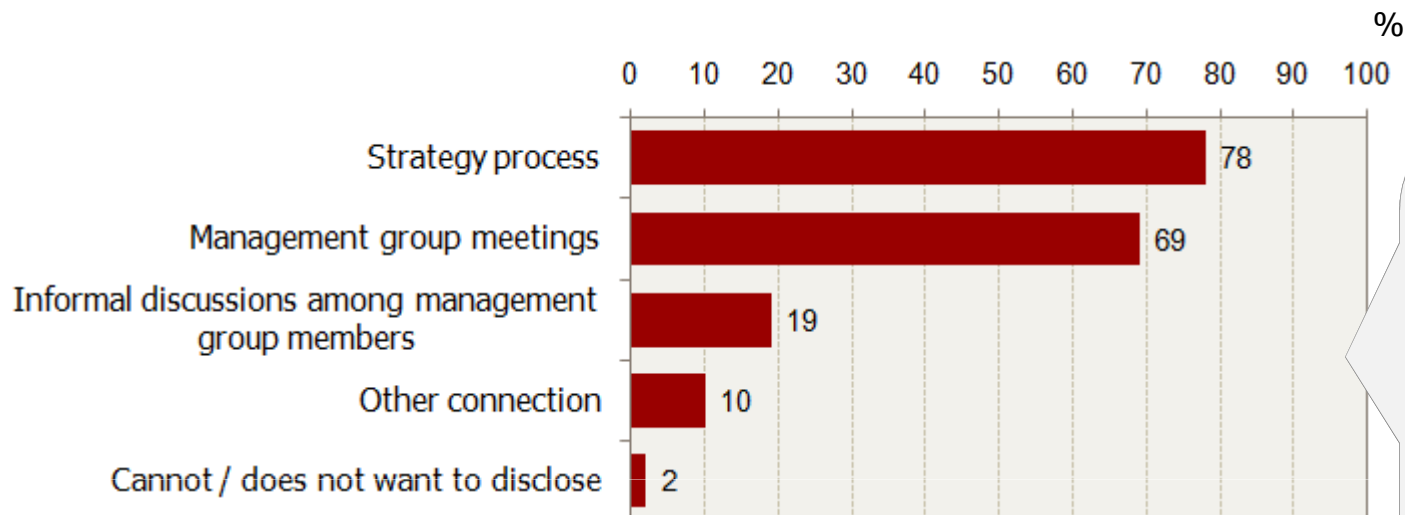


The responding companies deploy many different means to influence market development and these "market design tactics" are carried out in different functional departments.

When comparing firms growing faster than the market (gray bar) to firms growing slower than or in the same pace as the market (red bar), some differences could be detected in ways to influence market development.

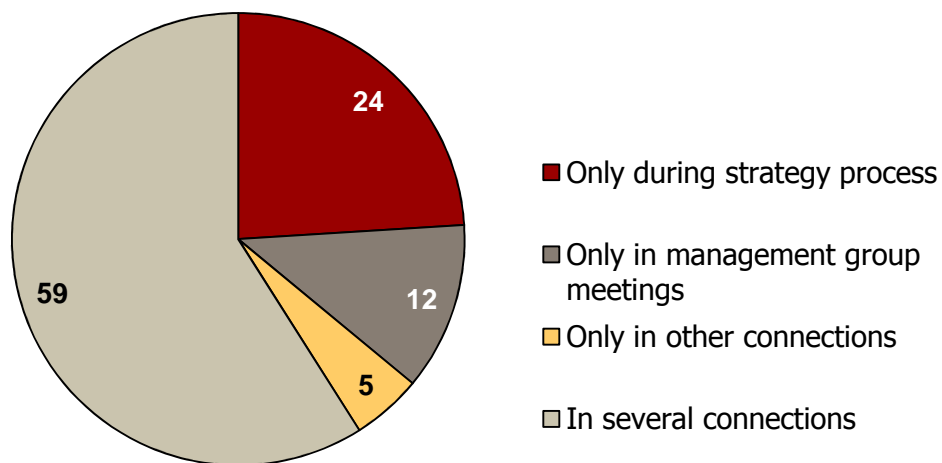
Firms that grow faster than the market, more often aim at improving the readiness of the network or the customers as well as creating competition. The firms also invest more in marketing, technological development and in influencing legislation.

When do you discuss market selection and definition within the management group?



22% of the respondents do not discuss market selection and definition during the firm's strategy process. Do these firms see market selection and the market itself as given factors not worthy to spend time on during strategy work?

On the other hand, 24 % of the respondents discuss market selection and definition only during the strategy process. Is the market situation of these firms so stable that they do not see the need to examine market definitions between strategy processes?

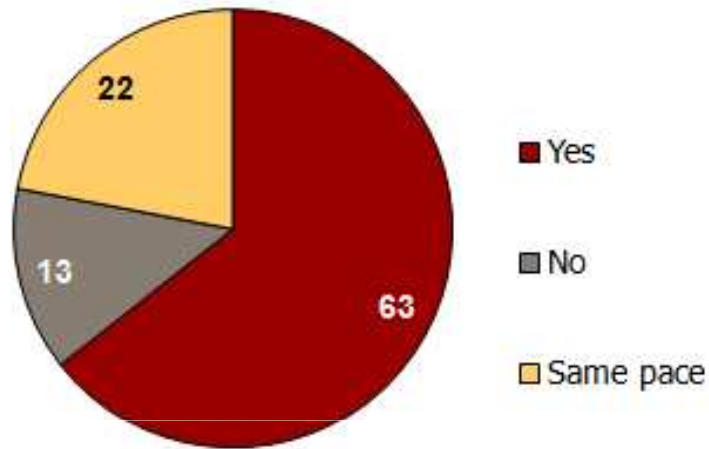


Growth pace and growth logic



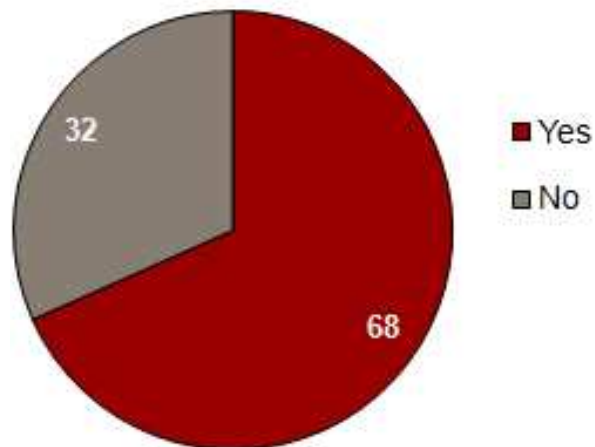
Growth and market selection

Does your firm grow faster than the market you operate in?



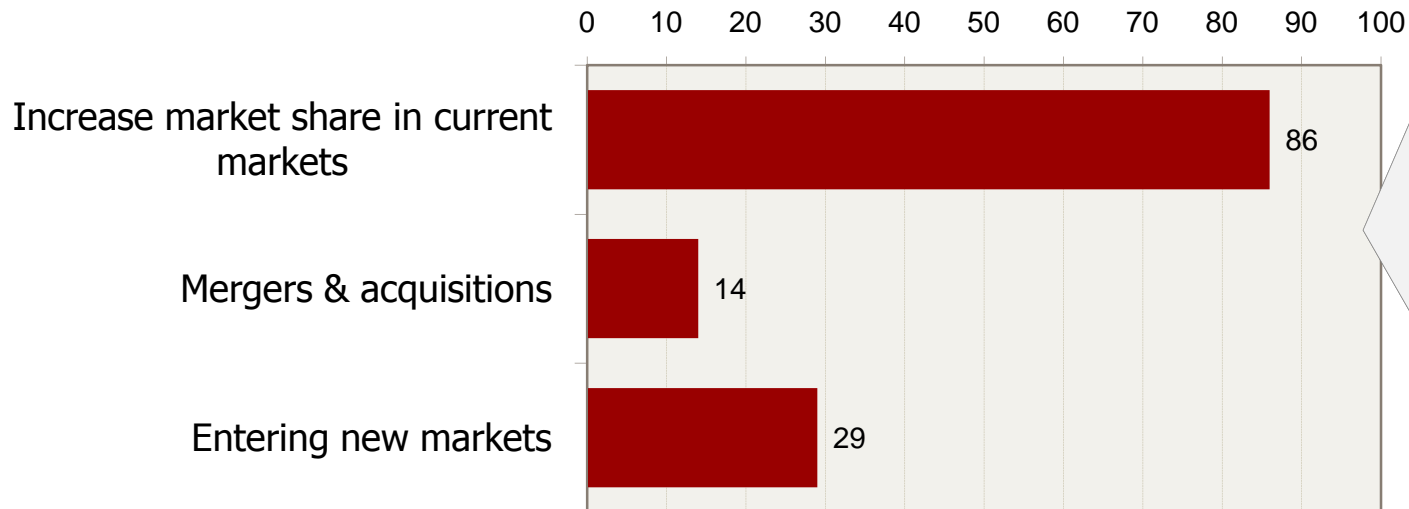
Other research results show that it is very difficult to maintain a pace of growing faster than the market for several years.

Do you seek growth outside you current market?



The majority of Finnish firms seek growth outside their current markets, but the most important growth logic is still to increase market share in the current market. (See next page.)

Which is your main growth logic?

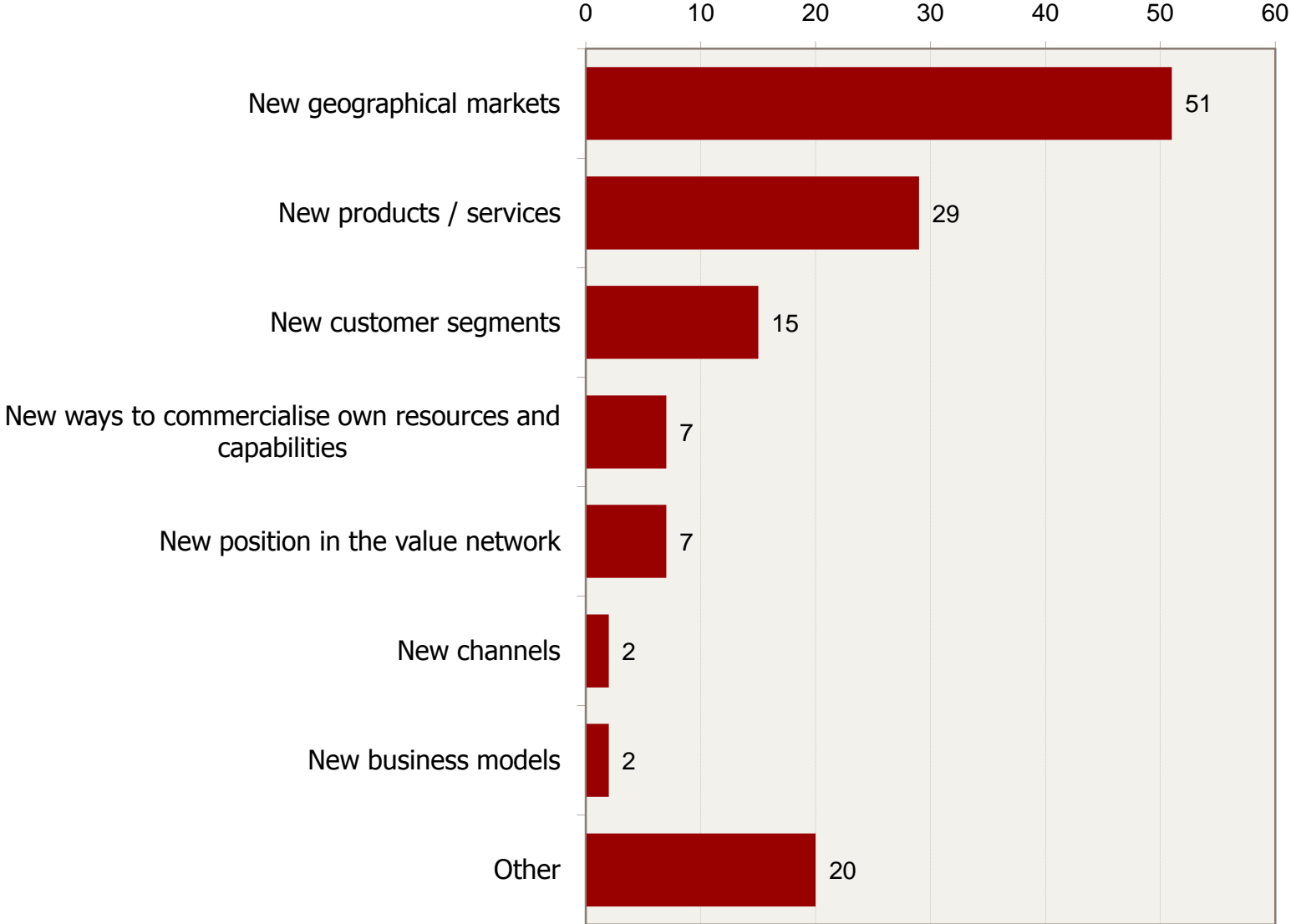


Other research results show that 2/3 of a firm's growth can be explained by market growth, whereas only 1/3 is due to factors related to competitive strategy.

According to a US-based study, only 1,2% of firm growth is explained by increases in market share.

Hence, it can be argued that increasing market share is an effective growth logic only if the market the firm operates in grows.

From where do you seek new market opportunities?



Appendices



Five different business logics

Installed base

Providing investment products and related services, thus creating an installed base at the customers.



Input to process

Providing products and solutions that are utilized as input in the customers' process.



Continuous relationships

Producing and selling services to both companies and consumers.



Consumer brands & retail

Producing and selling products for the consumer market through a channel and/or retail outlet.



Situational services

Providing project-based services, which fulfill customer's situation-driven needs.



Examination of results between firms representing different business logics

	Business logic					
	ALL RESPONDENTS	Installed base	Input to process	Consumer brands	Continuous relationship	Situational services
N	59	15	4	15	17	8
Is your market definition similar to your competitors'?						
Yes	49 %	67 %	50 %	29 %	67 %	25 %
What kind of market definition do you use?						
Product / Service	85 %	80 %	25 %	88 %	93 %	100 %
Geographical area	81 %	87 %	25 %	88 %	87 %	75 %
Customer segment	31 %	40 %	50 %	24 %	33 %	13 %
Position in the value chain	14 %	27 %	25 %	-	-	38 %
What kind of segmentation criteria have you used?						
Customer segment	82 %	87 %	100 %	88 %	93 %	38 %
Product / Service	33 %	33 %	50 %	31 %	21 %	50 %
Geographical area	21 %	20 %	-	19 %	14 %	50 %
Which is your main growth logic, i.e. where do seek growth?						
Increase market share on current markets	86 %	80 %	25 %	94 %	93 %	100 %
Entering new markets	29 %	47 %	100 %	18 %	13 %	13 %
Do you seek growth outside your current market?						
Yes	68 %	87 %	100 %	47 %	53 %	88 %

vectia

Driving growth.