CHAPTER 18

OPPORTUNITY MANAGEMENT

◇ Useful words and concepts

opportunity management
growth opportunities
customers
hamper
operating costs
margins
company
sales
venture
organizational skills
businesses (2)
capabilities
routines
do business with
opportunity cost
allocated
value
portfolio
ineffective
eventually
an array of
positioning
core customers
value
an array of
spectrum

transaction buyers
spot market
relationship buyers
purchasing
lack
switching costs
assets
benefits
total life cycle costs
meeting
specifications
scope
fungible
enterprise software
vendor
support
upgrade
processes
altered
commitment
executives
loyal (customers)
selling cycle
likely
consistent
threshold levels

proposals
custom product requirements
after-sale support services
worth it
product offering
sales management
coverage model
sales tools
product development
failure
solutions sales approach
chasing away
salespeople
available
make the numbers
business plan
available
dilutive
transaction selling approach
early adopters
relevant
crafting

Instructions For Study

1. Turn to the **definitions** following the text *Opportunity Management*. They refer to the specialist terms printed in **bold** type in the list of **Useful words and concepts**. Study them closely and pinpoint them in the text.
2. Use an **English** language dictionary to check the meanings (in context) of the other words in the list.
3. Do the exercises to improve your language skills.

Opportunity Management

Many companies pursue growth opportunities without adequately defining who their ideal customers are. That lack of clarity can hamper profitable growth. Customer selection impacts not only operating costs and margins; in an entrepreneurial company, initial sales also influence the venture's trajectory of organizational skills, because businesses develop capabilities and routines in the process of interactions with customers. The choice to do business with a customer also represents an opportunity cost: The money, time and people allocated to customer A are resources not available for customers B, C and D. The fact is that no matter how large or fast growing a market may seem to the entrepreneur, the venture can add and extract more or less value from different opportunities in its portfolio of market possibilities. In a competitive market, moreover, ineffective opportunity management eventually leads to loss of money, time and positioning with customers who are (or should be) core customers. The company runs the risk of becoming better and better at activities that core customers value less and less.

Most markets present businesses with an array of customer opportunities. At one end of the spectrum are transaction buyers in what is essentially a "spot market". At the other end are relationship buyers. Transaction buyers have short time horizons when purchasing in the venture's product category. In such markets, the lack of switching costs means that buy/sell adjustments are easy to make. Because transaction buyers invest little in specialized procedures or assets when purchasing in that category, they are less interested in the wider system benefits (or total life cycle costs) that the venture may offer. These buyers purchase a product for its price and performance at a point in time. This does not mean that these buyers are uninterested in quality or value. Rather, they define value as meeting specifications and do not want to pay for a product or service whose quality, applications or scope exceed what they want at that point.

In contrast, relationship buyers have a longer time horizon. There is something about the product, seller or buyer that motivates them to make larger investments in specialized procedures or assets. Once made, the investments are not easily fungible. Enterprise software offers a good example. Historically, the choice of an enterprise software vendor has been a multiyear choice of support, upgrade and other processes — a choice not easily altered after the fact. Because of these investments and switching costs, buyers are interested in the wider system benefits and in choosing a longer-term business partner. Hence, they are legitimately interested in knowing more about the seller's organization, commitment to the category, future plans, etc.

Many executives prefer relationship buyers in the belief that these customers will pay higher prices and be more loyal. But the selling cycle with the relationship buyer is also likely to be longer and more complicated. In general, transaction buyers want products and services that are consistent, standardized and easy to purchase at a given point in time. This means sellers need to provide appropriate selection and threshold levels of quality at an acceptable price. Relationship buyers, on the other hand, want to understand the quality and applicability of the particular solution and its feasibility over time.

To be successful, businesses need to align their selling program with the customer opportunities. If they're selling solutions to relationship customers, they need to be sure that the longer selling cycles, multiple requests for proposals, custom product requirements and after-sale support services are necessary and "worth it." In contrast, if they're focusing on transaction buyers, companies need to find ways to take costs out of the selling process, product offering and after-sale support services. Such decisions have implications not only for sales management (for example, who is hired, the coverage model and relevant sales tools) but also for product development, finance and other aspects of the business.

There are two types of failure in opportunity management. One type involves going after transaction buyers with a solutions sales approach. In such cases, transaction buyers would do the company a favor by chasing its salespeople away. Instead, such buyers tend to seek out more information about product possibilities and available services and then use the information in setting specifications with transaction sellers. New ventures, in particular, commonly overestimate their ability to acquire relationship buyers in their market. The result is that they often fail to make the numbers in the business plan and are forced to raise a dilutive round of additional capital to remain in business.

The second type of error in opportunity management occurs when businesses go after relationship opportunities with a transaction selling approach. Since the buyers in such situations are looking for a solutions-oriented relationship, they reject the offering, and the company misses a chance to compete in a market it wants or needs.

Responding to a sales opportunity, therefore, is a choice but not a binary — yes/no — decision. In new ventures, entrepreneurs almost always find that until they are out there selling, they really don't know the crucial differences between early adopters and other customers along the relevant spectrum of opportunities. To grow, the venture needs processes for learning about these differences and the responses available. An understanding of the venture's core customer profile should drive the crafting of the relevant processes.

Excerpt from: Frank V. Cespedes, James P. Dougherty and Ben S. Skinner II, *How to Identify the Best Customers for your Business*, MIT Sloan Management Review, Winter 2013.

◊◊ DEFINITIONS ◊◊◊

- ♦ **opportunity management** the filtering, prioritizing, processing and tracking by companies of real sales possibilities
- ♦ **growth opportunities** real possibilities of business expansion leading to a profit for the investor
- ♦ **operating costs** money spent in carrying out a company's day-to-day activities such as rent, utility bills, amortization, rather than in the direct production of goods and services; *overhead costs, overheads*
- ♦ **margins** net profit from operations divided by net sales and expressed as a percentage; *profit margins*
- ♦ **company** a commercial or industrial organization that aims at making a profit by doing business; *business enterprise, firm*
- ♦ **venture** a business, or a business deal, especially a new one, in which there is a substantial element of risk; *business venture*
- ♦ **organizational skills** the ability of an individual or an organization to use time, energy and resources in a way that helps desired results to be achieved
- ♦ **businesses (2)** commercial or industrial organizations that aim at making a profit through their activities; *business enterprises, firms*
- ♦ **do business with** to engage in commercial activity with
- ♦ **opportunity cost** what must be given up to acquire or achieve something else.
- ♦ **value** the monetary worth of a good or service sold
- ♦ **positioning** the marketing strategy aimed at creating a suitable brand image in the mind of the customer
- ♦ **core customers** the right people or businesses most likely to buy and get the most value from your services and/or products
- ♦ **value** to consider important
- ♦ **transaction buyers** customers who purchase a product for its price and performance at a point in time
- ♦ **spot market** one in which goods are sold for cash and delivered immediately
- ♦ **relationship buyers** customers interested in establishing a long-term business partnership with the seller
- ♦ **switching costs** fixed costs incurred by a buyer when changing suppliers
- ♦ **assets** resources that a company owns or is owed and which can be converted into cash; *business assets*
- ♦ **benefits** advantages such as ease of ordering, delivery, credit facilities, maintenance or warranty which consumers seek from buying a particular brand or product
- ♦ **total life cycle costs** sum of all recurring and non-recurring costs over the full life span or a specified period of a good or service; *cradle to grave costs*
- ♦ **specifications** written guidelines that precisely define the operational, physical and/or chemical characteristics, as well as the quality and quantity of a particular item to be acquired
- ♦ **enterprise software** computer applications designed to integrate all aspects of a firm's operations and processes
- ♦ **vendor** a company that sells a particular product
- ♦ **support** services that help enhance the benefits and satisfaction consumers receive from products such as the periodic maintenance or repair of equipment by its manufacturer or supplier during and after a warranty period; *product support services, after-sale support services*
- ♦ **upgrade** newer version of a computer hardware or software

- ♦ **processes** the procedures, flows of activities or sequences of tasks designed to make products
- ♦ **executives** individuals in a company in charge of deploying resources and making policy decisions by planning, organizing, staffing, directing, coordinating and budgeting the activities of the firm
- ♦ **selling cycle** the time that elapses between the initial contact with a customer and the completion of the transaction; *sales cycle*
- ♦ **proposals** documents submitted to customers or potential customers with details of your offer to supply a product or a service
- ♦ **custom product requirements** mutually agreed specifications designed by a supplier specifically for a particular customer's products
- ♦ **product offering** the range of products a company puts on sale
- ♦ **sales management** the organization and coordination of efforts aimed at attaining a company's sales objectives
- ♦ **coverage model** the extent of clients targeted
- ♦ **sales tools** strategies, facilities, equipment or instruments used to increase the efficiency and effectiveness of sales
- ♦ **product development** the creation of products with new or different characteristics that offer new or additional benefits to the customer
- ♦ **solutions sales approach** when a company sets out to meet a clearly defined set of customer specifications
- ♦ **salespeople** individuals employed to promote or sell goods and services to customers
- ♦ **business plan** set of documents showing a company's operational and financial objectives for the near future and the manner in which they will be achieved
- ♦ **dilutive** having the effect of reducing earnings per share
- ♦ **transaction selling approach** sales strategy that involves focusing on achieving quick sales without a significant attempt to form a long-term customer relationship

◇◇ EXERCISES ◇◇◇

◇ EXERCISE 1 *Comprehension*

True / False Circle the correct choice and justify your answer

1. Opportunity management maintains that for a company's growth to be profitable, core customers should be properly identified first. T / F
2. Poor opportunity management may detract entrepreneurs from offering products and services with higher customer value. T / F
3. Transaction buyers seek to establish long-term partnerships with the ventures they trade with. T / F
4. Transaction buyers value standard products or services that not only meet required specifications but also offer extra benefits. T / F
5. Relationship buyers, on the other hand, value custom products and invest in the specialized procedures needed to make them. T / F
6. Executives prefer relationship buyers because they are less demanding on product quality and price. T / F

7. The selling process of products is longer and costlier to transaction buyers than it is to relationship buyers. T / F
8. In managing customer opportunities, businesses need to align their selling program with the type of buyer if they want to succeed. T / F
9. Failure in opportunity management is due to a mismatched alignment of solutions and selling approaches with the type of customer. T / F
10. Entrepreneurs often know their ideal customer profile when they start new ventures. T / F

◇ EXERCISE 2 *Vocabulary*

(A) Use the list of definitions above **to select the appropriate term** to fit each sentence

1. Intelligent ………. helps companies adjust their selling initiatives.
2. Even online businesses have ………. such as server space and server maintenance costs which can still prove expensive.
3. The company's ………. have been seriously undermined by the downturn in business activity.
4. A new business ………. is seldom successful in building a loyal customer base in its early stages of development.
5. In any company, the people with the best understanding of the behavior that distinguishes transaction and ………. are the people in sales, marketing and support services.
6. The markets a ………. serves are generally partitioned into segments.
7. As customers use the product, the company modifies the offering and ………. associated with making and using it.
8. Long sales cycles typically require multiple ………., demonstrations and calls.
9. A company will sometimes bundle products and services in its ………. to win over new customers.
10. Many executives encourage their ………. to explain the benefits of the product they sell to the client.

(B) Match the words and expressions in column **(A)** with their meanings in column **(B)**

(A)	**(B)**
1. competitor's customers	a. those who were the first to start buying your products or services
2. core customers	b. people or companies who buy your goods or services on a regular basis
3. customers	c. those who buy goods similar to yours but which are produced by a business rival
4. early adopters	d. individuals or organizations no longer buying your products
5. enquirers	e. individuals or organizations recommended to your company as possible customers
6. existing customers	f. people who have expressed interest in your products but who have yet to place an order
7. lapsed customers	g. potential buyers of your products or services

(A)	(B)
8. loyal customers	h. people or organizations currently buying your products or services
9. prospects	i. individuals or organizations that are currently buying your goods or services
10. referrals	j. established buyers of your products or services

◇ EXERCISE 3 ***Grammar***

Nominal compounds

(A) Find examples of nominal compounds in the text

(B) In the following sentences, **rewrite** the phrases in *italics* as nominal compounds

1. *Efficiencies of production* reduced the cost of goods sold at the average S&P 500 company by about 250 basis points between 2000 and 2010.
2. Promising ventures can gain greater insight across the business by extending their *channels of distribution*.
3. *The requirements of a customer* can affect the stream of orders for the seller.
4. Companies need to devise a flexible sales model which is easily adaptable to *changes in the market*.
5. Entrepreneurs regularly devise new *plans for the development of products*.
6. *Programs for the training of staff* are commonly set up in the workplace.
7. Salespeople are usually appraised in terms of their *rates of customer renewal*.
8. Gaining a better understanding of core customers will help companies identify key links in developing *opportunities for new business*.
9. Not all new ventures are able to define clearly their *criteria for the selection of core customers*.
10. A good *process for the identification of the ideal customer* results in good sales figures.

◇ EXERCISE 4 ***Assignment***

Case study

Select a business venture and the type of customers it serves. Identify the category of buyers who constitute its core customers, its transaction customers and its relationship customers, respectively. Assess the criteria the company uses to categorize them. Work in pairs.

Report on your findings in a 15-minute oral presentation.