



The Importance of Defining and Analyzing Your Market Universe

In the petroleum marketing equipment industry, the classic example of the danger of excessive reliance on a single customer is provided by the Amco Corporation.

Over lunch, a friend who is the owner of a petroleum equipment distributorship said, "We operate within a radius of about 125 miles from our shop. Within that area there are roughly 380 companies that own facilities where a total of 50,000 gallons or more of gasoline or diesel fuel is held in bulk storage.

"These 380 companies," he continued, "represent our market universe. Any time we sell a piece of equipment or perform a service job, one of them is almost certainly going to be involved. That's why it's critical that we know as much about each of these companies as we can."

The man (I'll call him Ed) went on to tick off some general facts about the businesses that represent his market universe. Three are major oil companies. Four are chain C-stores. A dozen or so are independent marketers. Other companies represented in the mix include car rental agencies, utility companies, truck lines, school bus garages, package delivery firms, a pair of fixed-base airports, and so on.

"When we're responding to an invitation to bid, or just trying to sell a new piece of equipment," Ed continued, "the more we know about the potential buyer, the stronger our market position. What we try to do is maintain a continuing system of intelligence on each of these 380 companies.

"Years ago, when I first started in this business, I used index cards to keep track of what I knew about each customer and each potential customer. I would jot down all kinds of information—the names and titles of everyone in each company, for instance, who had anything to do with equipment purchase decisions.

"Well, that old card system eventually became too unwieldy to handle. We have everything on a computer database now. With the database we can manipulate the information just about any way we want. For instance, if we take on a new product that is designed only for use with aboveground tanks, through a little tweaking of the database we can quickly identify every company within our little market sphere that owns one or more aboveground storage tanks."

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Another advantage of the database system, Ed explained, is that information can be fed into it by every member of his own management team.

"When I talk with someone at a customer firm," he said, "it is often someone fairly high up in management—the CEO, for instance. But when our service manager talks with someone at the same company, his counterpart will usually be at a different management level. He picks up useful information I might never hear about and vice versa."

What sort of information goes into the database that Ed's company maintains on each customer and prospective customer?

"Most of it is pretty cut-and-dried," Ed says. "For instance, it always helps to be able to identify, by name, title, and area of responsibility, the key people in a customer company—people who might exercise some influence in a purchasing decision. That's why we have a standard personnel category in our database for each company.

"People are always moving around, of course, particularly in the major oil companies, and we try hard to keep current on who is currently occupying each slot. This can be of real value at times. Suppose, for instance, you receive an invitation to bid on an oil company project. In the hope of informally getting more details on the job, you pick up the phone and call the operations manager—a man you have dealt with in the past.

"But suppose the person you end up talking with turns out to be the new operations manager. The fellow you thought was in the job was promoted to another position more than a year ago. You're talking with his successor and you don't even know his name. The conversation can become pretty awkward."

Ed says his company's system generally prevents situations of this sort from arising. Customer personnel changes are tracked and entered in the database. A glance at this information, before making a phone call or a personal sales call, can sometimes be of enormous value.

What sort of information should a customer database contain. Ed says the system should be tailored to the specific needs of the company that creates it. A firm that is heavily engaged in service and installation work, for example, could use a somewhat different configuration of customer information than a firm exclusively engaged in equipment sales.

"When an equipment company sets up its first customer database," Ed says, "it probably won't contain much more than basic information: customer name, address, personnel, location of petroleum storage and dispensing facilities—that sort of thing. But the system should include expansion capabilities.

“Our system, for instance, provides a place for informal comments. You know how it is: in the course of a busy day you can pick up half a dozen or more useful bits of information about different customers. Some of these little nuggets might not be needed until a year or more later. If you don’t have an orderly system for recording them, however, the details will get away from you.”

One of the advantages of identifying your customer universe is this: in the process of doing so you might be reminded that your company is doing business with only a fraction of the firms that constitute its true market potential. If you identify, say, 500 viable prospects in your trade territory, and if you are routinely selling or providing services to less than a dozen, you may be revealing a clear vulnerability for business disaster.

Doing business with only a handful of customers can become deceptively comfortable. You develop an intimate understanding of your customers; keeping each of them happy becomes relatively simple. But if something suddenly goes wrong with your company’s relationship with one or two of these customers, the impact on your operations can be catastrophic.

In the petroleum marketing equipment industry, the classic example of the danger in excessive reliance on a single customer is provided by the Amco Corporation. In the 1950s, Amco, headquartered in Chicago, was the largest oil marketing equipment distributor in the US. In addition to its Chicago facilities, it operated branch offices and warehouses in Detroit, Philadelphia, and metropolitan New York.

Amco’s biggest single customer was Standard Oil Company of Indiana, then one of the nation’s top gasoline marketers. Standard operated thousands of service stations in more than 30 states. Its equipment purchasing was centralized in the company’s Chicago headquarters. Most of its purchase orders were issued to Amco.

The percentage of Amco’s total business volume which derived from this single major oil company ranged between 80 percent and 85 percent. Every Monday morning, an Amco representative would go to Standard’s offices on South Michigan Avenue and pick up purchase orders for the week—orders that amounted to tens of thousands of dollars. It was very nice business.

Then, in the 1960s, Standard of Indiana elected, on short notice, to change its purchasing policy. Instead of buying its marketing equipment from a single supplier in Chicago, it decided to start purchasing from other oil equipment distributors located throughout its extensive trade territory.

For Amco, this policy change was fatal. Within a matter of months, the company closed its doors and went out of business. In the petroleum marketing equipment industry, the event was later referred to as the “Amco lesson.”

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A market universe exists for every oil marketing equipment distributorship. Not all owners of equipment distributor firms, however, have taken the trouble to identify the scope of this universe for their own companies. Nor have they taken the trouble to begin assembling, in an orderly system, critical data on their existing and potential customers.

If you are the owner or CEO of an equipment distributorship, defining and analyzing your firm's market universe—somewhat along the lines described by Ed, earlier in this article—may be the most important contribution you can make to your company's continuing success.

The analysis process will help you focus more clearly on the potential for your company. It will also provide you with a sharper perception of your customers and prospective customers.

Howard Upton (now deceased) served as chief staff executive of the Petroleum Equipment Institute from that organization's inception until his retirement 37 years later. His management columns and light verse have long been featured in The Wall Street Journal. His contribution to this publication cannot be overstated. He was a model of integrity, objectivity, superior quality and a friend and mentor. (He is missed. JPH)