



EXECUTIVE INSIGHTS

Winning in the DSP Market: A Strategic Shift Beyond Engineering Expertise

Rapidly growing specialist digital services providers (DSPs) often rely on their specialist technical expertise to continue driving growth. But when organic growth becomes more difficult to come by and the next phase of growth is required, their business mindset needs to change: specialist DSPs need to think about their Go-To-Market (GTM) strategy.

Specifically, specialist DSPs need to start thinking about their market, customers and product just like businesses in the world of consumer packaged goods (CPG) might do. They should review their market position, develop a deep understanding of customer needs and possible customer segments to target, and accurately define their value proposition in order to stay ahead.

In a rapidly changing market, selectively borrowing the mindset and techniques of CPG businesses can reap both short- and long-term rewards.

Here's a good example of a specialist DSP start-up. Two digital services engineers set up shop. They focus on a particular technology issue, winning work and growing rapidly due to their niche skills and expertise. The potential of the business attracts external financial support. So far, so good: in Australia, many specialist DSPs start this way, employing a 'bottom up' approach to client problems, often from a narrow, technical standpoint.

For these businesses, initial growth is organic, often spurred along by external investors backing the business with much-needed capital investment. Along the way, our two founders build strong relationships with a handful of clients, gradually winning new work by branching out across their existing client base. They may acquire other businesses to

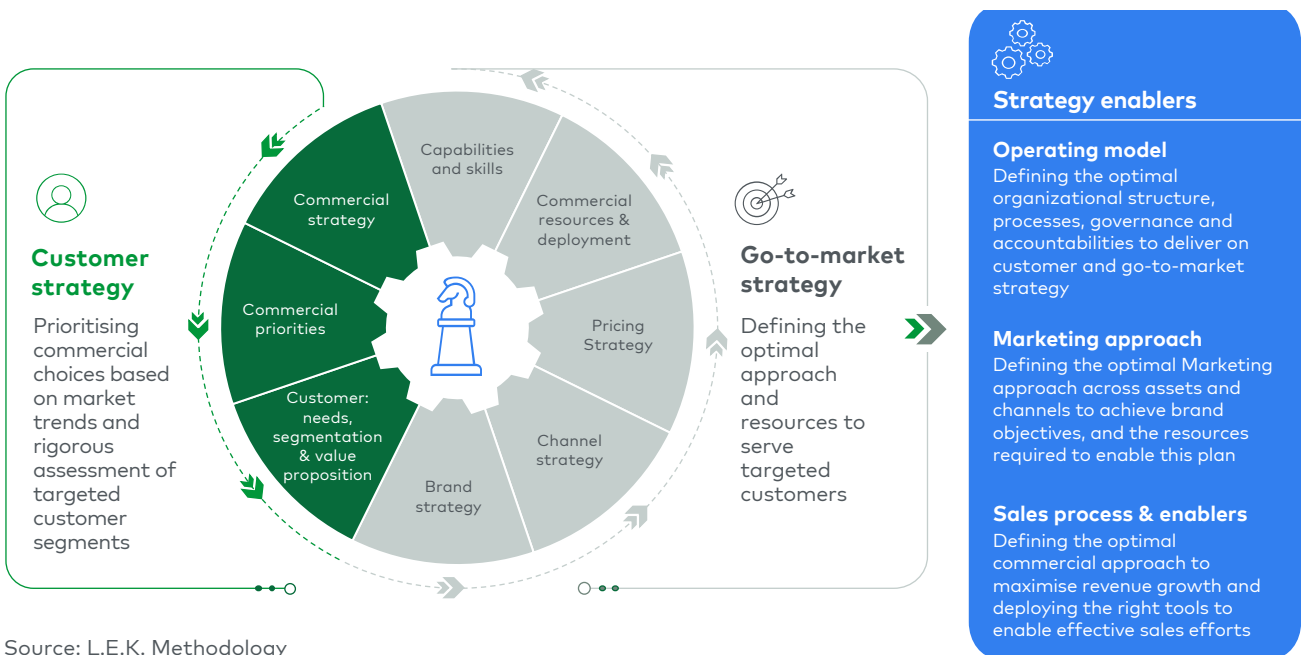
extend their capabilities or leverage their reputation as specialist providers to win new clients. These tactics establish a strong market presence and client base.

Achieving the next 'step up' in growth

At some stage the next big 'step up' in growth will become harder to achieve. Winning additional work from existing clients, winning new work, attracting top talent or potential investors - all becomes more *complicated*.

Now, our two founders and their financial backers have to start thinking like CPG marketers, to better understand how to **market** themselves and their business in a highly-competitive environment. For more growth, they need to consider the same questions fundamental to the success of a consumer business: "how do we better understand our market and our customers, such that our customers choose us as their preferred provider above all others?"

Figure 1
The Go-To-Market approach: L.E.K.'s Commercial Excellence framework



Source: L.E.K. Methodology

L.E.K.'s Commercial Excellence framework maps the critical elements of an effective, end-to-end GTM strategy. It shows how these elements must link together to work, starting at higher order issues directly linked to the overall business strategy before cascading down to tactical, in-market elements.

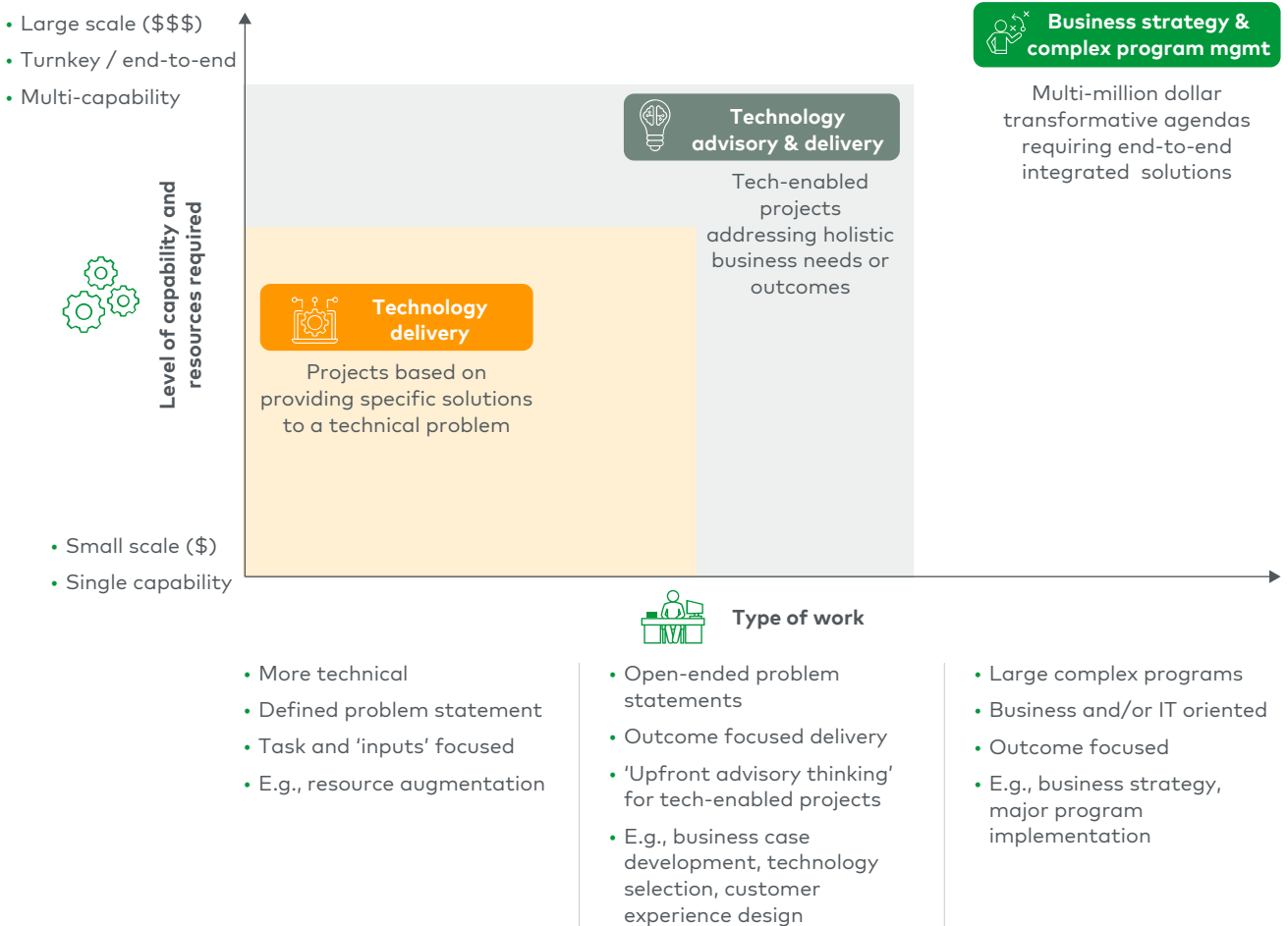
Commercial strategy and priorities form the basis of the Commercial Excellence framework. Together these require a clear **understanding of where the business in question competes in the overall market**, such that the market definition or boundaries can be accurately defined – 'what

is in' versus 'what is out'. This exercise seems simple, but many high-growth businesses fall into the trap of defining markets that are too narrow, or so broad as to be almost meaningless.

Specialist DSPs must be realistic in selecting their market parameters and thinking about where they sit within their market. An honest examination of their business against their competitors will help define which market definition best suits them - and which does not.

Figure 2

Competitive landscape for specialist digital services in Australia



Source: L.E.K. IP and research

Defining the market

L.E.K.'s analysis (see above) has identified two critical dimensions for specialist DSPs to consider when determining their specific focus markets within the broader specialist DSP landscape, and for investors to consider when reviewing potential DSP acquisitions.

The first dimension is the type of projects or work that a specialist DSP typically engages in. These range from defined, task-oriented technical projects, through to projects focused on broader business outcomes, usually with a significant level of strategic advice and / or implementation.

The second dimension considers the typical scale of resources and range of capabilities involved in a project, from smaller, single-capability deliverables through to significant, end-to-end engagements.

In our experience, specialist DSPs which grow from the typical 'founders' story often land squarely in the bottom left-hand corner of the market map, as providers of specialist technical skills in smaller-scale projects. The question then becomes how to achieve the next stage of realistic growth.

Many of these businesses stay in this space until they end up being acquired by a larger, more strategic competitor. This isn't necessarily a bad thing – but a better option might be to develop a plan to move themselves further along either or both of these axes, to create a more compelling business offering and / or more enticing proposition for any potential acquirers.

What the customer really needs

With the market now defined, L.E.K.'s Commercial Excellence framework suggests that specialist DSPs should now specifically focus on customers in terms of **segmentation and value proposition**, both of which are underpinned by a solid understanding of **customer needs**. This is where lessons from successful CPGs become particularly valuable.

"What do your customers need?" seems a straightforward question, yet we often see a surprising lack of clear, considered answers when we talk to specialist DSPs. This is not unique to this group: it's a common reaction from many types of businesses experiencing rapid growth. For these clients, we advise a comprehensive customer listening program. Such an initiative helps business leaders uncover what their customers are *really* asking for, far beyond what their sales teams tell them they want to hear, or what might result from an internally focused clumsily-worded survey.

In the CPG world, customer listening is standard practice, and a critical part of brand strategy and product innovation. A simple example is beer. Beer drinkers do not 'need' a beer. They need an easy-to-drink beverage they can share with friends in a social setting. Now no customers will ever state these needs directly...but by going deeper, using the right questions and approach, the true customer needs become clear. Understanding that ease and sociability are some of the core needs driving purchase of a beer over another beverage opens up the potential brand and product tactics that the CPG team might use, and might ultimately result in a new brand, even new products, and certainly new methods of customer targeting.

Critically, a business will have to differentiate between 'hygiene factors' versus true, powerful needs upon which customers will base their purchase decision on. For a beer

brand, "refreshing", "crisp taste" and "value for money" are essential hygiene factors. For a specialist DSP, these might be "the ability to do the job once and do it right", or "deep bench strength", or "technical know-how". Identifying and then acting on needs *over and above* these 'hygiene factors' is essential in developing a powerful GTM strategy, whether that be in beer or cloud-based digital transformation projects! In addition, it's important to understand which customer needs to focus on now, and which to address over the course of the growth strategy lifecycle, marrying up the most important and necessary needs to meet with the resources the business will need to do so.

A leadership team that spends time working through their approach to customer needs can then deliver their business a solid foundation for the next elements of GTM strategy: segmentation and value proposition.

Needs-based segmentation is a 'must-do'

Businesses often use the most obvious and tangible ways to segment their customers, such as current spend or an organisation's size (usually in B2B environments), or customer demographics (usually in B2C). But these approaches fail to address the nuances presented by different types of customers and risk false generalisations.

A more sophisticated approach relies on **needs-based segmentation**, involving a deeper understanding of customer motivations as the key drivers of buyer behaviours. This allows the business to efficiently tailor its value proposition directly to target segments. It also creates the greatest potential to drive rapid growth, by linking customer segmentation to product/service innovation, sophisticated account management and targeted business development. Customer account sizes and demographics can then be used as descriptors of customer segments, rather than signifiers.

Focus harder on clearer customer segmentation

Fast-growth businesses such as specialist DSPs commonly use account size, customer demographics and industry sector as ways to segment their customer base. These methods can be successful – up until the business' three-year plan demands new avenues for growth. Whether the demand is for more revenue, more margin, and / or an expanded footprint of operations, it is unlikely that a customer segment characterized by, say, account size will provide enough actionable insights for the business to use as it tailors its offering and approach to this group of customers. Needs-based segmentation might indicate a potential target group – say "commercial outcomes-focused professionals in digital laggard companies" – which could open up new product and service delivery opportunities as well as alternative approaches to business development.

Using the beer example, the brewery's marketing team would look harder at their customer base and disregard superficial customer categorisations (e.g., "25 – 39-year-old males in regional areas"). Probing more deeply, the team would use their deep understanding of customer needs to ascertain *why* customers are buying products and brands of a certain type and size, and *why* they are choosing their products and brands over their competitors. This understanding of needs is then used to define customer segments – as an example: "hard working traditionalists seeking a moment of escape". The most critical and defining needs of each segment forms the basis of all business activity focused on this particular segment, whether that be product range, distribution, communications, or price.

And make sure your value proposition enlivens your business and its value

Once specialist DSPs understand these deeper customer needs and can meaningfully segment their customer base, they can then craft **compelling value propositions** that establish a clear market position and effectively target attractive segments. A value proposition simply articulates what your business provides stakeholders, ideally showing how the business is more attractive than other competitors. A good value proposition takes a business' 'feature' and clearly articulates the benefits that a customer will experience from that feature. A great value proposition appeals to the buyer's emotions, by bringing to life the value of these benefits.

Value propositions typically exist on multiple levels and have multiple purposes across a business and its operations. New and fast-growing businesses need an overarching statement which clearly articulates what the business is all about. This 'company-wide' value proposition serves to communicate "who you are" and "what you stand for" as a business, presenting a cohesive narrative to internal and external audiences alike.

This narrative becomes a core part of the business' culture, attracts the best new talent, and differentiates the business to the external investor community. Further value propositions can be useful if the business operates in multiple, distinct and nuanced service areas targeting different customer segments. These statements underpin all business activities and can be used to benchmark individual business activities. If a new service line or people and culture initiative doesn't support the value proposition, should it be carried out?

For CPGs, the value proposition drives all current and future activity. The value proposition links the brand DNA (the essential and unchanging elements of a brand) to the brand's strategy and the market's evolving characteristics. The value proposition guides how the brand looks, behaves and innovates, all with the needs of the target consumer in mind. A well-articulated value proposition, ruthlessly executed across all brand activity, drives

incredible business efficiency and is successful in attracting the attention and business of the target consumer.

Growth and GTM go hand in hand

Specialist DSPs that invest time in developing clear GTM strategies will benefit from several immediate payoffs. Understanding the market, what their customers really want, and which customers they want to target will drive clarity, cohesion, and ultimately efficiency in achieving a DSP's growth agenda.

An effective GTM strategy will identify several flow-on implications for how the business operates. Ultimately, it simplifies the discussion of questions such as "do we have the right mix of talent to drive our strategy?", "what sales and marketing levers should be addressed to meet our target consumers?", and "what should we communicate about ourselves as we go to market for investment?".

Lessons from the CPG industry can be beneficial for specialist DSPs, with simple, effective GTM tools providing the means to achieve growth in an increasingly competitive market.

For more information, please contact strategy@lek.com.

About the Authors



Aakash Gandhi

Aakash Gandhi is a Partner in L.E.K. Consulting's Sydney office. With more than 20 years of experience across technology and telecommunications, he advises clients on a range of issues, including technology and digital strategy, corporate growth strategy, new market development, product development and M&A. He has particular expertise in cloud computing, software/SaaS, data and analytics, digitization, communications and data centres. Aakash is also part of L.E.K.'s Major Capital Projects Advisory practice, advising major project stakeholders on digital and technology portfolio assets, including feasibility for major capital investment decisions and sustainable solutions in complex project turnarounds. Aakash holds a Bachelor degree in electronics and telecommunications engineering from MIT, University of Pune, India, an MS in network systems from Swinburne University of Technology and an Executive MBA from AGSM.



Amy Darvill

Amy is a Principal within L.E.K.'s Consumer and Technology, Media & Telecommunications practices in Australia and NZ. She has over 15 years' experience in corporate strategy, brand strategy, marketing, and commercial M&A support. Amy was previously Brand Director at a major Australian brewing and beverages company, responsible for leadership of one of Australia's most iconic brand portfolios. Amy holds a Bachelor's degree in commerce and liberal Studies (Marketing, Economics and Finance, Honour programme) from the University of Sydney.



David Ferrarin

David Ferrarin is a Partner and Head of L.E.K. Consulting's Sydney office. He leads Australia's Media, Entertainment and Technology practice, while also consulting widely across many other sectors over his 20-year career. David has a reputation for delivering successful, complex, multistakeholder engagements in both the private and public sectors. He has advised clients on a variety of commercial issues including digital strategy and transformation, corporate and business unit growth strategy, merger and acquisitions, advanced analytics and data strategy, sports media rights, organizational strategy and transformation. David received a Bachelor of Commerce degree from the University of New South Wales and an honors degree in Marketing.

About L.E.K. Consulting

We're L.E.K. Consulting, a global strategy consultancy working with business leaders to seize competitive advantage and amplify growth. Our insights are catalysts that reshape the trajectory of our clients' businesses, uncovering opportunities and empowering them to master their moments of truth. Since 1983, our worldwide practice — spanning the Americas, Asia-Pacific and Europe — has guided leaders across all industries, from global corporations to emerging entrepreneurial businesses and private equity investors. Looking for more? Visit www.lek.com.

L.E.K. Consulting is a registered trademark of L.E.K. Consulting LLC. All other products and brands mentioned in this document are properties of their respective owners. © 2023 L.E.K. Consulting LLC