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Can We Make a Business with This Technology?

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Beloved by Apollo, who gave her the power to foretell the future, Cassandra the Prophetess was destined to know the truth. Without such gifts of prophecy, we have no similar guarantees, but our secondary research is complete and things look pretty good. Now it is time for the primary research to dot the i's and cross the t's and confirm whether to invest our time and money in making this technology into a business.

ANALYSIS: CAN WE MAKE A BUSINESS WITH THIS TECHNOLOGY?

MOUSETRAP MARKETING

The proverbial mousetrap can be used as a prime metaphor to explain marketing in simple terms and to recap where we are in the assessment process.

Research the market thoroughly to identify how many competitors are out there and how strong they are in the market.

Building the better mousetrap is guaranteed to ensure that the world beats a path to the door, right? The features and benefits of the better mousetrap are supposed to create a demand in the market and a suitable distribution for the product. But what if there are no mice in the area, the competition is cheaper and more effective, the mousetrap needs a special bait that is unavailable, or the mousetrap needs a seal of approval?

Mice Not Included. All too often, innovations are developed by people with a technical bent and little previous business experience. Their innovations result in products that satisfy their own particular needs. It often fails to occur to them that their needs may be far different from the needs of the industry, the market, and the consumer at large.

The innovation process often needs to be reversed. Rather than developing a product first, our interest and welfare would be better served if we identified whether or not we have a problem to solve and what the nature and extent of that problem is. This approach would establish if indeed there are any mice in the area and whether the development of our mousetrap might be successful, for example:

- The mouse population in our region is increasing. Is the end-user likely to get increased usage from our trap over time, building volume?
- The demand for our trap is seasonal or cyclical. Can the purchase of our trap be postponed or delayed?
- Our trap has to be multifunctional to cover different sizes of mice and different preferences of the end-user.

Stalking The Competition. Imitation is the sincerest form of flattery. In most cases, we are Johnny-come-latelys to the market with new products. Research the market thoroughly to identify how many competitors are out there and how strong they are in the market before committing to expensive R&D.

If BigCat, Inc., is firmly entrenched in the market, consider bowing out gracefully rather than risking a tooth and claw fight to unseat the locked-in competition. Of course, if the market is large enough, we might consider the Snapple "third largest" leverage positioning approach if our trap has cross-market from rural-to-urban rodents appeal. Even if we win a few battles, the hope of any reasonable market share is probably minimal. Study how BigCat is set up to distribute its product to determine whether we can tap into any new or hidden distribution channels. We should ask ourselves whether we can build enough margin into our trap to encourage sufficient market penetration in the early stages while providing a reasonable payback to cover R&D and overhead costs.

We also should ask ourselves if we can obtain any special market protection from patents and trade secrets. Is the design a "me-too" or a breakthrough? Will our customers discern the value of our trap in solving the mouse problem in their area?

Baiting The Trap. Perhaps we have developed a computer-controlled trap to catch mice. It seems that the mouse walks up to a high resolution video screen that randomly flashes pictures of Swiss cheese or another mouse before it zaps him. To further complicate matters, the computer and video screen system needs lots of expensive 4-megabyte RAM chips that are only available from Japan. Efforts to secure additional sourcing of the chips from Korea and Taiwan have been unsuccessful. Worse still, the current political administration is proposing trade restrictions. The lesson—design innovations with readily available components.

Eeking (!) Out An Endorsement. It seems that the majority of our customers are people who have serious problems when confronted by mice. It is obvious that our product is cheaper, more efficient, elegant, aesthetic, without disposal problems, but our customer wants to know if any organizations have endorsed our mousetrap. The customer is looking for the equivalent of a Good Mousekeeping Seal of Approval. Changing anyone's philosophy is always a tough sell since those who would work in the future are viewed with suspicion by their peers in the present. Be prepared for the long haul to get the product to the marketplace. Consider taking on a paid proponent for the product in its formative stages when philosophy becomes a business partner.

Proceed with caution when finding mice and the niche that can justify the development of the better mousetrap. Once we have found our niche, we must prepare to defend it against all intruders.

COMPETITIVE INTELLIGENCE—NO CLOAK OR DAGGER REQUIRED

Traditionally, most business plans are long on product narrative and short on market research. Small businesses often use the crutch of meager financial resources to justify why they cannot determine the true nature of the competition's plans, strategies, and capabilities.

Gathering most information requires no covert methods.

The mid-1990s Iran-Contra hearings, with their emphasis on data collection, taught important lessons to every small business person. The hearings reinforced what the CIA already knew—that 98 percent of all information is available in the public domain. We just have to know where to find it. The Internet may simplify such access.

Gathering competitive intelligence falls into three simple categories: that which costs nothing or next to nothing (Internet or old-fashioned library); that which entails only a modest expenditure (fee-based on-line databases); and that which cannot be obtained at any price (proprietary information), even by large companies.

Let's define our terminology first. Competitive intelligence, as used here, refers to one aspect only of the overall market research picture. It does not include studies on consumer preferences, product improvement, dealer effectiveness, and supplier attitudes; nor long-range economics, test marketing, sales analysis, and advertising pretests—all of which normally require outside help. Rather, it refers to what a company can learn about its competitors that it would like to know but doesn't know now, given limited resources.

As a first approach to gathering competitive intelligence, make use of data sources in the field. Field data can be collected from sales and engineering staff, suppliers and distributors, advertising agencies, security analysts, and new hires. It also can be collected at professional and trade meetings and through reverse engineering. There are typical inexpensive field studies that a small business can afford:

- Buy a competitor's product, take it apart piece by piece, and evaluate it. This is completely legal and ethical.
- Require field sales people to provide feedback on the activities of customers, distributors, and competitors.
- Assign executive staff to spend several days each year talking directly with customers. These end-user contacts should provide valuable information about the competition. It's also a good idea to include personnel and administrative people in this activity—to remind them that the company operates in a competitive arena.
- Meet with sales people, at least quarterly, for a two-way debriefing and reporting session to assess competitor activities.
- Plug up leaks in the company through which sensitive information might trickle. Make certain, for example, that a competitor cannot obtain a price list from the printer or distributor. Be aware at trade association meetings—a loose tongue can inadvertently pass on valuable information to competitors. Don't tip off a competitor that a new product is being introduced by holding an impromptu sales meeting.
- Stay aware of the inroads of overseas companies into the market. Check with the Department of Commerce, international trade representative, or Chamber of Commerce for new players in the territory.

- Ensure that there are sufficient (and correct) market research data to support sales projections for the intended product line when putting together next year's business plan.

Painting the bigger market picture requires combining field data with information gleaned from published data sources. Published data can be obtained from newspaper and magazine articles, want ads, government documents and publications, management speeches, filings with government and regulatory agencies, analyst reports, patents, and court records. Gathering this information requires no covert methods.

For publicly listed companies and the larger small businesses, competitive data in the financial, employee, product, R&D, and legal areas can be readily compiled. Typical financial information includes total sales data, profit/loss and balance statements, capital and leasing expenditures, advertising budgets, labor contracts, liens, credit arrangements, and acquisitions and divestitures. Employee information includes biographies on current key people, changes in staffing, total and divisional employees, compensation practices, and R&D assignments. New product (and maturing product) information includes product announcements, new plants or expansions, plant closings, and patent filings. Legal information encompasses lawsuits, labor contract expiration dates and strikes, stockholder actions, antitrust actions, and compliance investigations.

There are small market research firms whose services are reasonably priced and who compete well with the larger market research firms. These firms use clipping services, competitor interviews, and on-line computer database information to provide published data—both general and product oriented—for a modest fee. For an additional fee, they will catalog and analyze the data and brief companies on various market scenarios and competitive situations.

How can this competitive information be used effectively? Generically speaking, this information should be used to direct sales and marketing efforts, and at the same time to avoid any legal problems. Potential applications include changing marketing strategies, developing new applications, evaluating pricing strategy, weighing customer responses, reevaluating advertising programs, changing distributors or packaging, adjusting trade discounts, and preventing patent infringements and other legal problems.

Some competitive information cannot be gathered at any price, even by Fortune 500 companies. Cost and price data, for example, cannot be exchanged with a competitor or a trade association without risking legal action under antitrust legislation. Companies cannot engage in industrial espionage to obtain competitors' secret formulae, long-range plans, new products still on the drawing board, new operating techniques, and information on product capacity and costs without risking litigation and punitive penalties.

The price of admission into the competitive information game is not as high as we once thought. By judiciously staying abreast of day-to-day company activities, and with a little inside and outside help, we may steal a play from our competitors and protect our markets and our bottom line.

UNDERSTANDING THE MARKETING GAME

Ninety percent of getting technology to market is—marketing. The essence of marketing genius is the ability to explain any concept in simple lay terms. Current management books expounding the latest Druckeronian management and marketing theories appear to be folly. These sophisticated marketing techniques often overlook the simple focal point of any successful marketing strategy—attention to customers.

First, we need to understand the salient difference between selling and marketing. Simply stated, marketing is creating a desire for the product; selling is satisfying that desire.

Marketing, then, is creating an awareness of the product in customers who will pay for it and, hopefully, return to purchase more. The key to effective marketing is to match the product or service to the market and the customer; this is called niche marketing. This matching process requires us to understand (and practice) the four Ps taught in any introductory marketing class in college: *product*, *price*, *place*, and *promotion*.

Product. What a business really sells to the customer is not a product or service, but a benefit. Benefits can be related to time, energy savings, profit, convenience, skill, or price. Often, small business people complain long and loud that they can't compete with volume discounters, large selections, and mass merchandisers. Small businesses cannot hope to compete on price alone, an easy trap in which to fall. If we want to be successful, we stress service and benefits over price.

Price. What we charge for our product or service must be directly related to benefits. The customer who derives more benefit from the product or service values what we are selling more. Segregating customers by value-added criteria helps us increase our profit margin and add more profit to the bottom line. Customers who are sold on the benefits of our product and its value are ideal candidates for rapid payment and repeat business. The key to finding these valued customers is to identify a niche in the marketplace that no one else is presently satisfying or, at best, is being served poorly.

View products through the eyes of the customer.

Do not price solely on production cost or competition. Our goal must be to price to the perceived value that we are providing to customers while staying within the constraints of covering costs and meeting the pricing of comparable competition. Competitive advantages in the design of services or products must provide the leading edge.

View products through the eyes of the customer. We should let our customers determine what our services or products can do for them. We must stay flexible in our pricing.

Place. Paradoxically, the right place for most businesses is not necessarily where the customer is. For a retailer, a high-traffic location is fundamental to success, whereas, other businesses may be better off locating closer to their suppliers than to their customers. Service firms, depending on their nature, may be either close to or far away from their customers.

Matching location to the nature of the business and its customers is a crucial business decision for most firms. But if our location doesn't make any significant difference to our customers or to suppliers, we can locate to suit our personal preferences and budget. Remember, to stretch cash flow, choose pocketbook over pride and select the most inexpensive office space.

Promotion. Creating an awareness of the product or service is known as promotion. Promotion can range from an extravagant multimedia presentation to sending out a highly selective direct mailing to a few well-chosen potential accounts. Monitoring our success rate may encourage us to follow up with a broader and more expensive mailing to the total market.

For the start-up company, the large-scale promotion approach may be wasteful. The direct mail approach would normally be far more effective. Promotion need not be expensive so long as it is consistent and dedicated.

For the service firm in the early stages of introducing the company or a new product, personal contacts and good old-fashioned door knocking can be most effective. In retailing, a carefully chosen combination of paid advertising in the communities served, handouts, and free publicity usually return the largest dividends. For a manufacturer, carefully prepared product literature and competent sales calls (and follow-ups) have the greatest impact.

There are a few traps to watch out for, however. Be aware of minor details such as seasonal buying habits, when to place a phone listing, and the impact of carefully placed new product or service articles in trade publications. It also is important to watch (and learn) what the competition does. What features do they stress in competing or similar products? What sales pitch is used? Most products are sold using one or more of the three basic stimuli: fear ("protect your home from . . ."), greed ("never work again by owning your own business . . ."), and lust ("sex sells . . .").

Ninety percent of getting technology to market is—marketing.

Remember also that an industry's trade or retailing association can identify valuable trend projections and regulatory factors that could affect the business. In summary, we need to learn as much as we can about our market and our competition. First, identify the customer, then place meager resources wisely to promote the business.

If we reduce our basic marketing strategy to essentially watching our Ps and Qs (read inquiries), we'll be well on our way to winning the marketing game.

SMALL COMPANIES SURVIVE BY UNDERSTANDING MARKET NICHES

Small business traditionally competes in fragmented niche markets. These fragmented industries are characterized by a large number of small-sized companies, often privately held, and an absence of market leaders driving the industry. Small businesses looking to improve—or protect—their competitive position must first understand how and why their own industries are fragmented. This insight is critical in assessing whether larger firms are likely to enter the industries, for devising a cohesive market strategy, and for competing within the industry.

The common thread is to match either the product or service to the changing needs of the industry.

Industries become fragmented for a variety of political, economic, and historical reasons.

Low entry barriers encourage firms to enter an industry. Often, with little capital investment, resources, or experience, the entrepreneur can leave the womb of a previous employer and strike out alone. The fledgling entrepreneur is attracted by a simple manufacturing process or by a process that requires special knowledge, such as plastic molding and custom products. Recently, high labor costs have driven most manufacturing offshore. Thus, today's entrepreneur is more likely to be attracted to a simple distribution or merchandising operation.

High transportation and distribution costs can open up another opportunity for small business. Such costs usually determine the geographic radius a firm can serve, limiting its size to an efficient level. Chemicals, cement, and milk products fall into this category.

High inventory costs and fluctuating business cycles can work to the advantage of small-scale manufacturing or distribution firms. Often they can take advantage of their size—be they buyer or supplier—when no size advantage exists for the larger firm. The larger firm, by intentionally buying from several suppliers to minimize the risks associated with a sole source, can actually encourage additional firms to enter the supply market. Existing suppliers cannot offer sufficient sales discounts to drive out this new competition. The result is that the small supplier enjoys an enlarged market and the small buyer cuts inventory costs because competition for the big firm's business keeps the prices low.

Lack of economies of scale can also cause fragmentation. For larger firms, continual changes in style or product design limit their windows of opportunity. It is simply not worthwhile to tool up production lines. Clothing and computer-related products are good examples of businesses with ever-changing demands.

Custom product lines can require close contact with end users who tend to favor higher priced, low-volume products. This umbrella allows the specialty small business not only to survive but to prosper. A closely related situation occurs when suppliers develop a highly specific market usage for their particular product or service.

Local control, local image, and local contact can be plus factors for the small firm. Here, the owner or manager personally maintains close supervision of employees and close contact with customers. Building supplies or restaurant services are examples where the local firm has the advantage.

Low overhead can also be a crucial success factor for the small firm, which is normally unencumbered by pension plans and other corporate perks.

Government regulations also fragment industries. Local regulations drive industries such as real estate and liquor retailing, and personal services such as dry cleaning and eye glasses. Federal regulations also impact banking and professional services.

To cope with fragmentation in the industry, strategic posturing is crucial if our firm is to become more successful. While each industry may have its own rules, there are a number of approaches a small business can take. The common thread of each approach is to match either the product or service to the changing needs of the industry or to neutralize the potential competitive advantages other firms might offer to lure customers away.

The first approach—"if you can't beat 'em, join 'em"—is decentralization. Since fragmented industries are characterized by personal service, close control, and local contact, decentralize activities into a number of autonomous branches rather than increasing the scale at one (or a few) locations. Of course, this approach must be supported by a tightly managed central control and balanced by a performance-oriented compensation program for the branch managers.

What can we do to compete if our products or services are otherwise identical to the competitors? If we can't differentiate, then we add "value" to the product or service. Perhaps we can provide a little more service at the point of sale, perform a final assembly step (such as cut to size), or supply additional component assemblies (kits). In short, by going the extra mile, we create a differentiation among products, which can lead to higher product margins. The concept of value-added can be enhanced by manufacturers who integrate upwards into distribution or direct retailing.

When business depends on numerous items in the product line, one effective strategy is to specialize by product types or industry segments. As we attract buyers through our specialty, we can pull through additional sales of other products or services— "one-stop shopping."

Other strategies include specialization by customer type and order type. By appealing to particular customers, perhaps those smaller volume purchasers with the least bargaining power, we can carve out a niche market. Likewise, by providing convenience over price and "get it today" crisis items, we can build our reputation on customer service.

Another effective strategy is to focus on a geographic area. This allows us to economize sales force costs, plan more efficient local advertising, and establish a single distribution outlet. The latest shakeout in the food store chains shows this strategy working despite the presence of national chains.

Food stores call to mind another strategy—the bare bones/no frills/pack your own groceries approach. Given the low profit margins often associated with fragmented industries, a low overhead approach using less skilled employees, tight cost controls, and attention to detail can work. The company will be in a good position to compete on price and still make a reasonable bottom line.

Although fragmented industries are characterized by low market shares, consider "selective backward integration." This approach lowers costs and puts pressure on competitors who may not be in a position to affect such cuts. How do we accomplish this? We can create economies of scale by setting up a manufacturing or assembly operation, by acquisition and consolidation of less profitable firms, or by licensing new technologies.

Of course, backward integration schemes are based on fundamental business economics that may not apply to the industry. If our firm lacks resources or essential skills, or worse, is complacent, then we better take care not to become a shakeout victim ourselves. We better keep our ear to the ground to hear the rumble of the competition as it approaches and change percolates through the industry.

Whatever the industry, whatever the business, make an annual audit of your company and your market share. Ask customers, suppliers, competitors, and employees what is taking place in the industry. Will the industry continue to be fragmented in the future? Will some innovation or large company change the rules of the game? Can we continue on our current path, or will change be thrust upon us?

COMMON-SENSE MARKET PLANNING

How can a small business identify new market opportunities?

Businesses operate in a competitive market and grow by establishing a market niche or establishing new sales outlets. They are concerned about how to sustain continuing growth particularly when recession clouds rumble on the horizon. They understand the essential difference between marketing—creating a desire for their product or service—and selling—satisfying that desire. They also understand that marketing includes point of sale activities and a communications program: advertising, promotion, and publicity. However, aside from trade association support, they do not understand how to obtain basic market research information from their customers and suppliers.

Experience teaches us that the only certainty in business is change.

Market research information is essential to understanding and keeping up with the market's needs and wants. Highly competitive markets are characterized by rapid obsolescence of products and services. Experience soon teaches most small business people that the only certainty in business is change—tomorrow's market will be

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significantly different from today's market. Just as important is the company's communications program. If it is not based on a logical and reasonable marketing plan, then the company is probably operating on "remote"—a passive reactive mode. The company is probably playing follow-the-leader and letting competitors call the shots and effectively dominate the market.

Many times, lack of sales is not the result of poor sales techniques, but more likely by failure to offer a product or service that meets the market's requirements. These snares can be avoided if we think before we act. Forget about the daily fires that have to be put out and put aside some time to plan.

The good news is that market research and planning need not be time consuming and expensive. For the most part, market research is a common-sense way of understanding customers and potential customers and where the company best fits into the marketplace. Small business owners and managers working with their sales organizations and customers should be able to perform most of their own marketing research.

The first step is to run a simple survey with the customers. Call them up or include a little note with their order. Ask them what they like about the business and what they want in service and products. It's cheap, immediately effective, and for the most part, always overlooked by management.

Once we've exhausted our customer resource, we can check out a number of other free information sources: public libraries, chambers of commerce and community affairs, state agencies, the Small Business Administration (SBA), the U.S. Department of Commerce, local colleges and universities, and trade associations. The use of outside professional experts and agencies can also be helpful, but not as a replacement for our own market research.

Whether we choose one or all of these avenues matters not, as long as we clearly understand our marketplace. Developing that understanding is a matter of asking and accurately answering a series of common sense questions. Who are our current and potential customers? What determines their needs? How have their needs changed recently? What will be their needs in the next 6, 12, 24 months? How much do they buy? How often do they buy? What is a reasonable price range for our products?

Armed with this information, we can then answer the three key questions that every organization, regardless of size, must ask. What products and services should we keep? What new products and services should we add? What products and services should we eliminate?

Follow this with the bottom line questions to complete the other half of the marketing puzzle concept, the company's capability to compete profitably. Which of the needs of our customers and potential customers can our company afford to meet? Where do our customers look for product information? For which of our customer's needs are our sales and distribution methods well-suited and cost-effective? Who are our direct competitors and how do they operate? What is the rate of change in the main technologies that underlie our product and services?

With a little more patience, this information should help us answer the three final marketing questions we need to ensure profitability. What market niches can we potentially dominate? What type of sales program will be most effective and within our organization's ability? What type of communications program will be required to ensure we create sufficient awareness of our products or services so that we can maximize the effectiveness of our sales efforts?

And now the bad news about some common problems to watch out for when planning. Marketing programs that fail tend to have a common set of problems: a lack of consistency and commitment; spreading too few dollars over too ambitious a program; great expectations of an immediate profit payback from a short-term marketing investment; and an inappropriate marketing plan, particularly profit goals. Profit goals are part and parcel of a company's overall plan because profits are the expectation of the firm's total performance.

Marketing plans should focus on goals such as total unit sales, number of customers, orders per customer, first-time orders, repeat orders, system sales, and market share or penetration, if appropriate.

Write it down and follow it. Marketing plans must be written down if only to serve as a method for evaluating actual results as compared with planned goals. This doesn't need to be a 50-page document in a $25 binder. Marketing plans should be dog-eared and continuously updated to reflect the ever-changing reality of the marketplace.

Using common sense and the multiple resources available to us will keep our businesses up to date on the market's demands. We must write our plan down on paper and follow it.