

# Marketing and Selling Your Products

## PERSISTENT MARKETING AND SELLING LAUNCHES SQUARE

The company, Square Inc., started in 2009 with a list created by Jack Dorsey, co-founder of Twitter, distributed to potential investors. The list had 140 reasons why the company would fail and counterpoints to each reason. Jack wanted to show these potential investors that he was aware of all the problems existing, but would nevertheless be successful in designing a product to allow anyone to accept credit card payments anywhere in the world—a particular frustration for small businesses throughout the world in the Internet age of online purchases. The company's first product was the Card Reader—a one inch square dongle that turns an iPhone, iPad, Android phone, or Android tablet into a credit card processor.

The idea for the product came from the frustration of friend Jim McKelvey on losing a \$2000 sale of one of his hand-blown glass faucets because his company could not accept the potential buyer's credit card. McKelvey, Dorsey, and Tristan O'Tierney an iOS engineer, developed the prototype of Square to prevent this problem from occurring. In order to be able to work, the company would have to get the approval of major credit card companies. At that time, however, the major credit card companies allowed only entities with a merchant account to accept their credit cards, with the exception of one online aggregator—PayPal. It took 6 months and many demonstrations by Dorsey of the prototype for the major banks and credit card companies to change their rules and allow aggregators such as Square Inc. to act like a merchant or PayPal and accept credit card payments.

Using this first mover advantage, Card Reader successfully marketed the product, charging merchant users only 2.75% per swipe or a flat fee of \$275 per month (for merchant users who swipe less than \$250,000 per year). The Card Reader, which can be ordered free online on Square Inc.'s website, uses a creative point-of-sale app to replace the cash register. This allows a customer to swipe his/her credit card and sign on the screen with a finger.

The company continues to be on the cutting edge of technology for the new generation. It launched Square Wallet in 2011 – an app that allows customers to pay a merchant by just saying their names. Market acceptance has not been quite as fast as for the Card Reader, but by the end of first quarter 2013, 250 locations in the USA and Canada are allowing its use.

By combining quintessential technology with good marketing, Square Inc. has achieved significant success. It has raised more than \$341 million in financing from venture capital funds and

*Continued*

other investors such as Starbucks. In spite of significant competition, (including a deal between Visa and Samsung by which Samsung's next generation of phones will have Visa's PayWave app already installed), the company had a valuation of \$3.25 billion and 500 employees in 2013. The company plans to have Square available worldwide in the next years.

**Sources:** <https://squareup.com/>; <http://www.inc.com/audacious-companies/issie-lapowsky/square.html>

## 10.1 INTRODUCTION

Square Inc. like every successful company has one thing in common—customer focus. This, along with the commitment to solving problems through technology and to sound strategic marketing, allows these companies to successfully launch and grow. Being dedicated to understanding and satisfying the needs of customers in defined target markets, these companies motivate everyone in the organization to produce superior value leading to high levels of customer satisfaction.

Delivering customer satisfaction through marketing, the focus of this chapter, begins with understanding and selecting the target market(s) and then focusing. This area is followed by a discussion of the consumer purchasing (adopting) the product and the difficulty in disruptive technologies. The remainder of this chapter deals with a presentation of the marketing mix and building a marketing plan.

## 10.2 TARGET MARKET SELECTION

Selecting a **target market** allows technology entrepreneurs to be more efficient and effective by focusing on the segments identified (see Chapter 4) that can be best reached and satisfied profitably.<sup>1</sup> In target marketing, not only does the *who* need to be addressed, but also the *how* and *for what*, which are discussed later in this chapter. The target group of customers must be of sufficient size, able to be reached cost effectively, and be satisfied.

The degree of customer satisfaction depends on the perceived performance of the product or service in filling the customer's expectation. If performance matches or exceeds expectation, the customer is satisfied. Satisfied customers not only make repeat purchases and can become loyal customers, but also tell others about their good experience with the product or service—word of mouth advertising. The key is to match the performance of the company and its product or service with these expectations, making sure not to promise more than can be delivered.

How are customer expectations formed? Customers form their expectations of a product or service from past buying experiences, competition information,

their experience of the performance of the product or service, and the opinion of others. A company satisfying these expectations creates value for the customer.<sup>2</sup> Customer value is basically the difference between the values gained from the product or service and the costs of its obtainment.

## 10.3 PURCHASING THE PRODUCT SERVICE

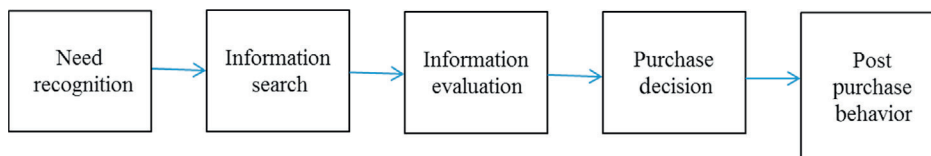
The purchasing process can be looked at in terms of five stages—need recognition, information search, information evaluation, purchase decision, and post-purchase behavior (see [Exhibit 10.1](#)). Sometimes these stages are collapsed, such as during a repeat purchase by a satisfied customer where there is no need for an information search or evaluation.

Customers buy things because they recognize a need and want to fulfill it. The stimulus of this need recognition can be from the inside (feeling hungry and having something to eat) or from the outside (seeing someone's computer and deciding to buy one).<sup>3</sup> This need recognition can be instantly satisfied with an immediate purchase or taking a longer period of time to fulfill, which often occurs in disruptive technologies.

In most situations, except when a need can be instantly gratified such as filling hunger by purchasing a McDonald's hamburger, information is needed. This information usually comes from one of four sources: personal sources, personal experience, public information, or commercial information.<sup>4</sup>

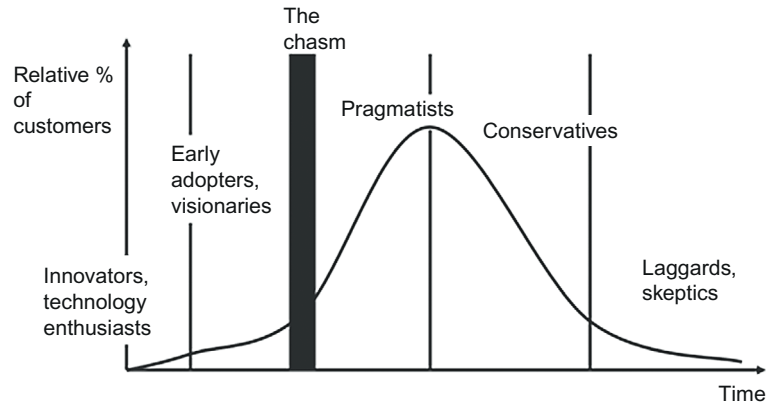
This information must then be evaluated, the most critical stage in the process, which forms the customer's expectation. The quality and characteristics of the product or service are evaluated based on both its characteristics and its utility. The goal is to obtain the best quality with the most utility at the best cost.

Based on this information evaluation, a customer selects a product or service and decides whether or not to purchase it. Social factors influence how long it will take to purchase, and if indeed a purchase will even be made. During the buying process, customers are constantly assessing whether or not they will be satisfied with the product or service and receive the value expected.



**EXHIBIT 10.1**

Model of the customer buying process.

**EXHIBIT 10.2**

The product adoption curve.

The feelings of concern and perhaps not receiving satisfaction go on after the purchase—the postpurchase behavior. Sometimes cognitive dissonance occurs, which is an uncomfortable state occurring after the purchase due to: lack of product or service performance; new information; or a reappraisal of customer expectations. These feelings of dissatisfaction need to be successfully dealt with for customer satisfaction and so that repeat purchasing might occur.

The **adoption curve**<sup>5</sup> is a summation of customers making an initial purchase decision over time (see [Exhibit 10.2](#)). These customers can be classified into five groups: innovators, early adopters, late adopters, conservatives, and laggards. In the case of disruptive technologies, there is often a gap between the more innovative and early adopting groups purchasing the product and the remaining bulk of the market. This chasm, or gap of adoption, needs to be carefully bridged through a strategically constructed marketing plan in order to ensure success of the product or service.

## 10.4 MARKETING

The definition of marketing depends on the perspective of the individual and the discipline. Law, technology, finance, economics, operations, and the customer each view marketing from a distinct vantage point, or lens. In this hypercompetitive, rapidly changing technological environment, the following definition is most applicable. **Technology marketing** is the process of making decisions in a totally interrelated, changing business environment, or the activities that facilitate exchange satisfying the targeted customer while achieving the objectives of the company.<sup>6</sup> In order for an exchange (the process of obtaining a desired object, usually a product or service or experience, by offering

something in return, usually money) to occur, sound management decisions need to be made on each controllable marketing activity. This exchange is best satisfied by the combination of marketing activities selected when everyone in the company focuses on the satisfaction of the target market. This is the essence of the marketing concept.

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## MINI-CASE

### *Whole Foods Differentiates on GMO Labeling*

In March 2013, Whole Foods Market announced that all genetically modified organism (GMO) food products in their stores in the USA and Canada would require a GMO label by 2018. They are the first grocery store in the USA to enact this mandate. With increasing skepticism among consumers about GMO foods, particularly among health food consumers, they have created a valuable differentiated niche in the grocery store industry and perhaps have spearheaded a full movement toward GMO labeling. They currently sell more nonGMO Project verified products than any other retailer in North America, making their labeling strategy hard to replicate for grocery stores that may wish to follow their lead.

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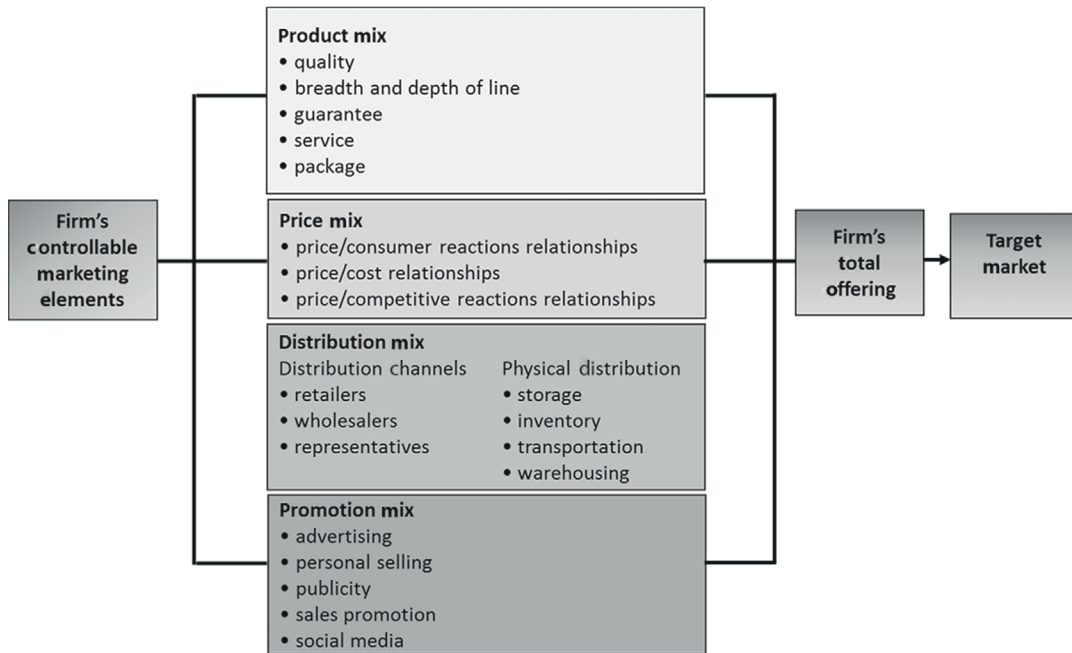
## 10.4.1 The Marketing Mix

The controllable marketing activities, or marketing mix, indicated in [Exhibit 10.3](#) are used in some combination to facilitate exchange.<sup>7</sup> They are best classified in the four areas indicated: product mix, price mix, placement (distribution) mix, and promotion mix. These are sometimes referred to as the 4 P's.

## 10.4.2 Product Mix

Product mix area relates to decisions by the technical entrepreneur regarding quality, breadth and depth of line, guarantee, service, and package.<sup>8</sup> A product or service is anything both tangible and intangible (including activities, benefits, or satisfaction) offered for consumption or use. If it is a technical product, the service component (in the form of installation, training, or repair) may be the most important element in the sale. Technical entrepreneurs need to think of their products at different levels. First, there is the core product which solves the problem of the customer: the basic bed of Jameson Inns for sleeping, the basic computer of Apple for analysis and processing, or the basic telephone of Samsung for communication. The core product needs to provide the benefits sought by the customer in solving the problem. These are the products' unique selling propositions, which, when matched with the benefits sought, help ensure the success of a technical product.

This core technical product must then be enhanced to deliver the actual product to be marketed. This enhancement usually includes some aspects of design, level of quality, features, brand name, and packaging. The Apple iPhone 5 is more than just a telephone: it provides access to email; it is a camera; it stores information;

**EXHIBIT 10.3**

The marketing mix.

it has a design that is thin, light, and attractive; it has several colors as its package; and it carries the brand name Apple and all that this implies.<sup>9</sup> The transformation of the core product to the actual marketable product can be a challenge. One technical entrepreneur had a difficult time transforming the core product of a motorized wheelchair for children into a marketable one that would attract customers to purchase it. The final marketable product took one year to design at a cost of \$500,000, which had the same operational and safety features as the core wheelchair product. Functionally, the wheelchairs were the same, but they had significant esthetic differences. Often, a technical product will have different levels of features so that different products can be offered at different price points to different target customers. This is a good way to develop a product line.

Branding is creating a name, design, logo, symbol, or a combination of these that identifies your company as the source of the product or service. One goal of a successful company is to turn that brand into a protectable trademark.<sup>10</sup> In choosing a brand name, the technical entrepreneur must make sure that it is not already registered in the market where the product will be offered. A brand name should usually avoid all geographic words because this may limit the expansion of the brand to other markets and, from a trademark perspective, is not inherently protectable. Some brands, however, use the word to take on some meaning associated with the brand. The city of Boston (USA) is known

for its high standard of medical care and innovation, so a start-up company, Polymer Technology, named its first gas permeable contact lens the Boston Lens and its solutions the Boston Lens Cleaner and the Boston Lens Soaking Solution. The company was so successful in its introduction that it was purchased by Bosch & Lomb before the soft lenses were created and marketed.

A brand name needs to have the attributes of pronunciation (easy to say), connotation (related to the product area and not a negative one), and memorability (easily remembered).<sup>11</sup> Further, from a trademark perspective, the brand name should either be arbitrary (and unrelated to the product or service) or indirectly suggest the characteristics or nature of the product, rather than describe them directly. A brand-name that merely describes the product is typically not protectable as a trademark (see Chapter 5). An example of a logo that suggests the characteristics of the product is that of Whole Foods; the addition of a leaf over the “O” in Whole Foods’ logo suggests the all-natural aspect of Whole Foods’ product line while making it more appealing and approachable. The Whole Foods Market announced in early 2013 at the Natural Products Expo West, that all products that will be carried and sold in its stores in both the USA and Canada must have a label indicating whether the product contains GMOs.<sup>12</sup> This is the first national grocery chain to do so, but it may set a standard for all stores. Of course, not all brand names are “suggestive.” “Apple”, for example, is arbitrary as applied to electronic products; before Apple Computer, iPhones, and tablets, the term “Apple” was more closely associated with food and fruits than it was the computer area.

While packaging is often thought of as only applying to consumer technical products, it can be equally important for industrial technical products as well. Packaging involves designing and producing the wrapper or container for the package.<sup>13</sup> Sometimes there are two packages—one for the final product and one for shipping. A package needs to not only protect the product, but also be attractive, adhere to any applicable legal aspects and be adaptable to production line speeds. When a package is designed for sales, it needs to have the following features:

- Apparent size (given the perception of size without being deceptive)
- Attitude—drawing power (capture and hold the attention of a customer)
- Quality (convey the feeling of quality)
- Readability (the name and logo should be easily read)
- Aesthetically appealing (should have a good appearance)

For example, one small company producing a high-tech plastic extruding machine found that making the machine aesthetically appealing on the manufacturing floor was necessary for sales, even though the functional aspects of the machine did not change. For similar reasons, in 2013, Perrier water introduced a new slim aluminum 250 ml single-serve can in Canada when celebrating its 150th anniversary.<sup>14</sup> The cans contain the French carbonated water in several flavors—natural, lime, and pink grapefruit. Each flavor has no sugar and zero calories.

Package design has become very technologically advanced. Examples include:

- Appy Food & Drink Co. launched a new line of juice drinks for children in 2013. Each drink features a reality, technologically enhanced character from Nickelodeon. Each fruit drink is packaged in Tetra Pak cartons that allow consumers to scan the back of the carton with a smartphone to obtain props worn by a character. These props can then be stored on an iPhone and used to customize images.
- Marks & Spencer collaborated with Staeger Clear Packaging to create an intricately woven gold foiled tube for the company's dark chocolate-coated ginger. The packs, made from recycled plastic (polyethylene terephthalate (PET)), give a very classic, upmarket appeal to the product. The difficulty was being able to have the right heat and pressure to print a smooth detailed finish for the design.
- In 2009, Kimberly-Clark used computer screens outfitted with retina-tracking cameras to test the company's newest packaging for its Viva paper towels to determine which package design got noticed in the first 10 seconds a shopper looked at all the towels on the shelf.<sup>15</sup> This retina-tracking research was also used by Unilever for redesigning the bottle for Axe body wash. Using a virtual 3D environment, testers wearing specially equipped glasses outfitted with three balls with sensors, recorded, the eye movement of each consumer sideways and vertically within the virtual scene. The results made Unilever change the shape of the bottle from curvy to straight, increase the size of the product description, and make the brand more visible by embedding the black X in a blue background.

Additional features can then be added to create the final product for the market. These last additions to the product offering can include such things as guarantee, delivery, credit, installation, and after sales service. The guarantee is often very important, particularly for a disruptive technology that is new to the customer. It is also important to assure a new market that the new product is a good one to purchase. Swatch first entered the United States by guaranteeing its watches for life. Swatch also made it easy for U.S. customers to deal with a foreign company (Swiss) by opening an office in the United States. Cross Inc., a U.S. company founded in 1846, guarantees its pens and pencils for life. Usually a new pen or pencil is sent to the customer whose product ceases to work properly regardless of the date of purchase. Jameson Inns guarantees a good night's sleep or you do not have to pay for the room.

After sales, service can be the most important factor for the customer buying the product. Knowing that service is readily available or that it will be delivered in a prompt manner is important in certain purchase decisions. Discount Tire, a nationwide chain in the very competitive automobile tire business, will rotate the tires on a truck or car at no charge every 5,000–7,000 miles. And, this offer is even for tires not purchased at one of their stores. As one store manager explained to the author: "When rotating the tires, if one needs replacing, chances are the customer will do



it then. And even if no tire needs replacing, the customer has now experienced our fast, friendly service.” Minneapolis-based Best Buy created a better experience in its after-sale computer service business by creating the Geek Squad dressed in white pants and black ties and driving old cars to repair your computer.<sup>16</sup>

### 10.4.3 Pricing

Probably the area of the marketing mix most poorly done by entrepreneurs is pricing.<sup>17</sup> Two internal factors affect overall pricing decisions. One is the objectives for the product. These objectives can be: acquiring sales as quickly as possible; maximizing cash flow and profits; acquiring a strong market share and market position; indicating a level of product quality; and survival. The first objective—acquiring some sales as quickly as possible—is often a primary factor; it provides the technical entrepreneur with some needed cash and allows more funding to be raised, which is often needed in a technology venture.

The second internal factor—other elements of the marketing mix—should always be a consideration. Pricing is just one aspect of the offering of the technology venture. It needs to be carefully considered along with the aspects of the other three elements—product, distribution, and promotion—in order to develop a consistent, effective marketing mix. Some technical entrepreneurs have the price drive the entire marketing mix, and they price according to market conditions and competitive prices. Preferably however, a technology entrepreneur deemphasizes price and focuses instead on the product being offered and its unique features. This is usually a better strategy. It is almost always better when introducing a technological product not to have the lowest price, but rather have something different in the rest of the marketing mix that supports a higher price.

The three fundamental aspects of pricing (sometimes referred to as the 3 C’s) as indicated in [Exhibit 10.3](#) are cost, competition, and the consumer. Cost is the floor, the foundation, that the technology entrepreneur needs to determine the price. The price set for a product or service must cover all costs of producing, distributing, and selling the product or service and deliver an adequate rate of return. Costs take two forms: fixed and variable. Fixed costs, often referred to as overhead, are those costs that do not vary with the production or sale of the product. At the start of the venture, these should be very low except for any research and development costs for the product. Variable costs, sometimes referred to as “Cost of Goods Sold” (COGS), are those costs that do vary with the level of production. These costs should decrease as the company becomes more efficient and achieves some economies of scale of purchasing and production. One cost that needs to be taken into account is the cost of the channel of distribution used, which is considered under the distribution discussion of the market mix later in this chapter.

The second C—competition—establishes the boundary for the price. Unless there is something radically different about the product due to its technology,

technology entrepreneurs should price their products within these boundaries. This pricing strategy requires a thorough knowledge of all products presently filling the same market need, their features, and price. These competitive prices establish a benchmark for pricing and will aid in determining the differences in the product as well as possible prices to be considered. This analysis also helps the entrepreneur to gauge the competition's most likely reaction to your market entrance.

The final C, and the most important one, is the consumer. Persuading a consumer into becoming a customer is the ultimate goal of pricing and the entire marketing mix. The consumer, whether in the consumer, industrial, or government market, determines whether the price and/or product offering is the right one. The customer exchanges something of value (the price) for something of value (the benefits) when buying a product. Customers need to perceive value from the purchase and then realize that value once the purchase is made.

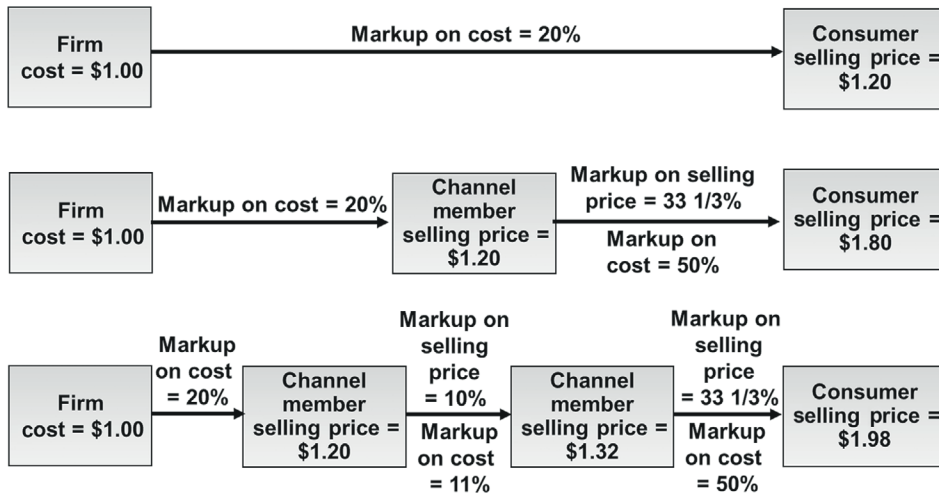
Two overall general pricing strategies are often used when introducing new products—market-skimming pricing and market-penetration pricing. Most technological products are introduced through **market-skimming**.<sup>18</sup> Here, a higher price is set so that more revenues can initially be skimmed from the market. Prices later are lowered as economies of scale occur and competition enters the market. This pricing strategy is most appropriate when: the image and quality of the technology product supports the price, such as, e.g., the Apple iPhone 5; enough customers will want the product at that price, such as the Apple iPad; high research and development costs and the high costs of the initial production runs exist, such as with a new Intel computer chip; or competitors are not able to enter the market quickly and easily, because of, e.g., market entry barriers or intellectual property protection.

The other general pricing strategy to introduce a new product is **market-penetration pricing**.<sup>19</sup> In this case, a new technology product is introduced at a low price in order to capture more quickly a larger market share. This strategy tends to work best when: a higher price would cause potential buyers not to purchase; volume production of the product will quickly and significantly lower the costs; any overhead costs are best allocated over more units; or the product has a very short life cycle and loses its distinctiveness very quickly.

#### 10.4.4 Placement (Distribution)

The third part of the marketing mix is distribution, an increasingly important area in the rapidly changing global economy. It is composed of two rather distinct areas: channels of distribution; and physical distribution.

Many technology products are taken to market through intermediaries—members of a distribution channel. A distribution channel is a group of independent organizations involved in making a technology product or service available for purchase in the market. In moving technology products or services from the

**EXHIBIT 10.4**

Channel members and price.

firm to the consumer, these independent organizations provide several functions: contact, marketing, promotion, and information. At times, channel members can provide financing, risk taking, and some negotiation. Of course, these services are provided at a cost which increases the selling price to the customer. As is indicated in [Exhibit 10.4](#), the price can increase from \$1.20 (direct) to \$1.98 on a product costing \$1.00, depending on the number of channel members used and their respective markups for handling the product. While manufacturers think of markups (margins) on a cost basis, channel members think of markups (margins) on a selling price basis. The conversion formula is:

$$\% \text{ markup on cost} = (\% \text{ markup on selling price}) / (100\% - \% \text{ markup on selling price})$$

Of course, due to a larger denominator, the percentage markup on selling price is always lower than the percent markup on cost (see [Exhibit 10.4](#)). The two prominent channel members are retailers and wholesalers.

An interesting channel member that is widely used, particularly at start-up by technology entrepreneurs, is a manufacturer agent or broker. A manufacturer agent or broker can represent the technology company and sell its technology products on a commission (% of sales) basis. They do not take ownership (title) to the product or service, but market it to potential customers. They bring contacts and credibility, which are important for a new technology company. Significantly, they are only paid when a sale is made. This tends to mitigate potential cash flow problems for the emerging company.

The other aspect of distribution is physical distribution or the physical movement of the technology product or service to the customer. This can involve storage, inventory, transportation, and warehousing and has had increasing importance, particularly as the cost of transportation has significantly increased and will continue to do so. Physical distribution is directly related to customer service and can cause serious problems and costs, especially when the product is not available for purchase (out of stock conditions) or a product is not available for use when needed (late delivery).

The management of the distribution mix is called **supply chain management**. This is a management method for providing better customer service at a lower cost for the technology product or service through teamwork inside the company and among all the members of the channel system. Inside the technology company, each functional department needs to work closely together to maximize the logistics performance.<sup>20</sup> Outside, the company needs to integrate its logistics system with those of suppliers, channel members, and customers to maximize the performance of the entire distribution system.

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## MINI-CASE

### *Squishable Uses Facebook to Test Market New Products*

The stuffed animal company [Squishable.com](http://Squishable.com) found an innovative way to research which new stuffed animal it developed would be a success in the market. They use Facebook to survey over a quarter million fans to vote on their next creation. The top animals then enter the design phase. After designing the new animals, [Squishable.com](http://Squishable.com) posts the sketches on Facebook for feedback. Facebook fans decide all final designing decisions on the stuffed animal creation, down to the colors. The new products are often back-ordered for months and [Squishable.com](http://Squishable.com) continues to grow its Facebook fan base.

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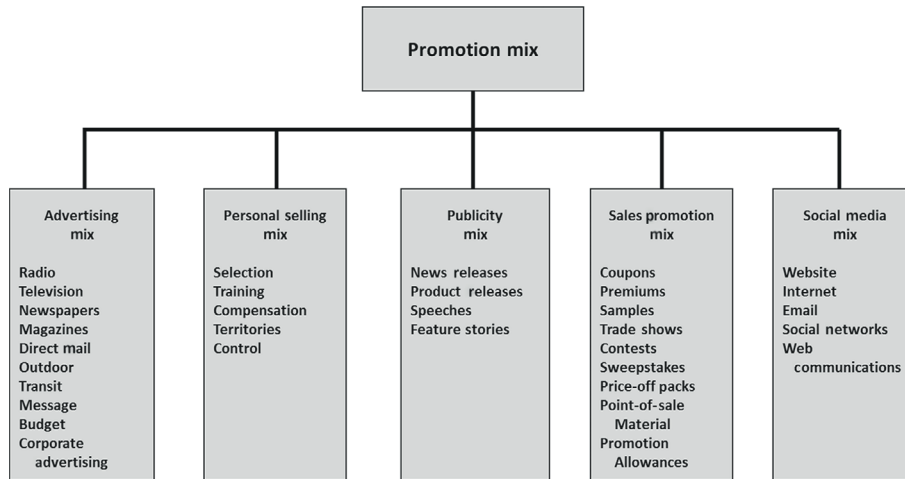
## 10.4.5 Promotion

The final part of the market mix is promotion. Promotion involves managing and integrating five areas:

- Advertising (paid-for communication of the technology product or service)
- Personal selling (personal presentation of the technology product or service)
- Publicity (nonpaid presentation of the technology product or service)
- Sales promotion (nonsecuring activities promoting the technology product or service)
- Social media (promotion in the Internet age)

Each of these five areas has several elements, as indicated in [Exhibit 10.5](#).

Advertising is probably the most widely known, visible promotional activity. The primary components of advertising are media selection and message

**EXHIBIT 10.5**

The promotion mix.

development. Such media as television, radio, magazines, newspapers, direct mail, outdoor, and transit are selected in light of the message to be communicated, the budget available, and the target audience. When possible, the technology entrepreneur should use cooperative advertising where the costs are shared with another entity, usually a channel member.

Unlike advertising, which is nonpersonal in nature, personal selling involves a personal presentation of the technology product or service to an individual or group.<sup>21</sup> Personal selling can be done face-to-face, on the telephone, or through the Internet. Personal selling involves such activities as selection, training, compensation, territories, and control.

Sales promotion is one of the least understood, diverse promotional areas, consisting of a variety of promotional activities that are not considered advertising or personal selling. These include such things as coupons, samples, trade shows, sweepstakes, price-off packs, point-of-sale material, and channel member promotional allowances. While not as understood, this promotional area is increasing in use and is a good method for the technology entrepreneur to develop a creative way to promote his or her technology product or service.

Publicity is a nonpersonal form of promotion that is not directly paid for by the technology company. Publicity involves a favorable presentation of the technology product or service, company, or entrepreneur, which tends to be viewed more favorably by a customer. It has more credibility because the source of the message is not perceived to be the company. It usually occurs in a print or broadcast media generated through news releases, product releases, or company events covered by the media. Speeches by employees, particularly

the technology entrepreneur, are an effective form of sales promotion because customers more easily relate to people than products or services. Steve Jobs was an excellent spokesperson for Apple and had a significant influence on each new product introduced and the overall sales of the company. Word-of-mouth advertising or satisfied customers favorably talking about the technology product or service or referring the company to other potential customers is the best form of sales promotion because it has the highest level of source credibility.<sup>22</sup>

The final area of the promotion mix—social media—has become one of the most important areas of the promotion mix in this Internet age. Consisting of such diverse aspects as website, Internet, e-mail, web communications, and social networks, this area has now become the largest expenditure category in the promotion budget of any company. It is imperative that a technology entrepreneur have, in place at start-up, a website where information about the technology product or service and company can be obtained and the product or service purchased. All technology companies today need to establish an e-marketing presence that includes creating a website, placing ads and promotions online, creating or participating in web communities (social networks), and using e-mail and webcasting. An effective e-marketing presence is essential in today's global economy. Online marketing is a powerful tool for attracting customers, increasing sales, communicating company and product or service information, delivering products or services efficiently and effectively, and building customer relations.

The top five social media platforms for businesses are: Facebook, Twitter, LinkedIn, YouTube, and blogging, and, of these, Facebook and Twitter are the most popular. According to the *Social Media Examiner*, 97% of all businesses use social media, with 86% of them indicating that it is vital to the business.

Of increasing importance is using social media in marketing research, particularly since 80% of the businesses surveyed use social media sites to monitor and extract information. For example, when Walmart wanted to know whether to stock lollipop-shaped cake makers in its stores, it studied Twitter chatter. Estée Lauder's MAC cosmetics brand asked social media users to vote on which discontinued shades to bring back. The stuffed animal brand Squishable solicited Facebook feedback before settling on the final version of a new toy. And Samuel Adams asked users to vote on yeast, hops, color, and other qualities to create a crowd-sourced beer, an American red ale called B'Austin ale that got rave reviews. Also, Gilt asks customers to vote on which products to include in a sale and sets up Facebook chats between engineers and customers to help refine products. Kohls, which started asking its Facebook fans in July 2012 to pick products for inclusion in sales, said those fans were more heavily represented than its overall customer base in the 18-to-24-age demographic.

A unit, now called @WalmartLabs, looks at Twitter posts, public Facebook posts, and search terms on Walmart.com, among other cues, to help Walmart refine what it sells. Its technology can identify the context of words, distinguishing “Salt,” the Angelina Jolie movie, from salt, the seasoning. @WalmartLabs noticed that enthusiasm for “*The Avengers*” and “*The Dark Knight Rises*” was surging before the movies were released and suggested that stores increase their orders of related merchandise. And, after Walmart started carrying a spicy chip called Takis, @WalmartLabs found that most of the positive chatter about it was coming from California and the Southwest.

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## MINI-CASE

### *Wal-Mart Labs Creates Seamless Shopping Experience*

@WalmartLabs combines mobile, online, and stores to allow shoppers to buy whenever, wherever, and however they desire. To do this, they have brought in new technologies including Inkiru, OneOps, Tasty Labs, and Torbit. Using these advanced tools allows Walmart to obtain better analytics in order to enhance the performance of their website, allowing for a more flexible and customized online shopping experience. The @WalmartLabs team, made up of technology entrepreneurs, web developers, software engineers, and marketers, has created a state of the art online shopping experience for online consumers.

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## 10.4.6 The Promotion Budget

One of the most difficult and yet important questions for the technology entrepreneur is to determine how much to spend on promotion. Total promotional spending varies greatly as a percent of sales from industry to industry. The technology entrepreneur needs to know the promotional expenditure by size of firm (small, medium, large) in his or her industry. Several key factors should enter into establishing the promotion budget: the product, its features, and stage in the life cycle; the channels of distribution; the promotion and company objectives; and most important, the target customer and characteristics.

Considering these factors, there are five methods that can be used for determining the promotion budget: arbitrary determination method, competitive parity method, objective and task method, percent-of-sales method, and affordable method.

In the **arbitrary determination method**, the promotion budget is determined in a seemingly arbitrary manner.<sup>23</sup> When using this method, technology entrepreneurs rely on their intuition and past experience in establishing the budget. This is a very unsophisticated method, but more firms use this method than any other one. A common benchmark used more frequently than others is 10% of last year's sales.



In the **competitive parity method**, a technology entrepreneur uses the promotion expenditures of competitors to establish their own budget. This information on the competitor's budget is also useful in evaluating the overall competitive environment and can be obtained through carefully analyzing a public company's financial statements or through a service that monitors all the advertisements in a given product or market area for a fee. The competitive parity method has some drawbacks because it employs historical data of competitive expenditures and assumes that all have very similar marketing situations.

Probably the best method for establishing a promotion budget is the third method—the **objective and task method**. When using this method, you establish definitive promotion objectives and then determine the amount and cost of the promotion to reach these objectives by costing each element of the promotion mix needed. Not only does this method allow for each element in the promotion mix to be effectively used, but it also makes sure that the amount of money to be spent on promotion is commensurate with the task at hand. A clearer basis for evaluation of the promotion expenditures also results.

The fourth method—the **percent-of-sales method**—is also widely used, mainly because it is easy to use. This method involves applying a fixed percentage to either past or future sales figures. If last year's sales were \$200 million and the percentage used is 3%, the promotion budget for this coming year would be \$6 million. The sales figure used can be the sales for the last year or an average of sales achieved over the past several years. By using an average sales figure, the impact of any erratic sales fluctuations on promotion expenditures is eliminated. You can also use a percentage of future sales, basing the promotions budget on future conditions, not on past events. When you use the percent-of-sales method for determining the promotion budget, you should compare it to the percents of leading competitors as well as industry norms.

The final method—the **affordable method**—is simplest to employ. It involves the technology entrepreneur setting the promotion budget at the level he or she thinks the company can afford. The level is usually determined by starting with total revenues, deducting operating expenses and other capital outlays, and devoting some part of the remaining funds to promotion. This is probably the most unsatisfactory method for establishing a promotion budget because it totally ignores the effects of promotion on sales and therefore revenues. It in actuality places promotion last in spending priorities, ignoring the fact that promotion is critical to the successful launch of the technology product or service and sales and growth of the company.

Regardless of the method used and the resulting size of the promotion budget, each promotion expenditure needs to be carefully evaluated to determine if it is effectively reaching and impacting the target customers, accomplishing the desired objectives, and achieving the desired sales.



## 10.5 CHAPTER SUMMARY

This chapter focused on the markets of the technology venture. Aspects of customer behavior and the impact on purchasing (adopting) the technology were discussed, along with the chasm occurring for disruptive technologies. The four aspects of the marketing mix were presented—product, price, placement (distribution), and promotion—as a way for the technology entrepreneur to inform the target customers about the nature and aspects of the technology product or service and company. The chapter concluded with a discussion of the promotion/marketing budget and methods by which it can be established.

## KEYTERMS

**Target market** Specific group of potential customers toward which a business aims its marketing plan.

**Adoption curve** Summation of customers making a purchase decision over time.

**Technology marketing** The process of making decisions in a totally interrelated changing business environment or the activities that facilitate exchange satisfying the targeted customer while achieving the objectives of the company.

**Market-skimming** A process whereby a higher price is set so that more revenues can initially be skimmed from the market.

**Market-penetration pricing** A product introduced at a low price in order to capture more quickly a larger market share.

**Supply chain management** The management of the distribution channels.

**Arbitrary determination method** Determining the promotion budget in an arbitrary manner.

**Competitive parity method** A method a technology entrepreneur employs where the entrepreneur uses the promotion expenditures of competitors to establish his or her own budget.

**Objective and task method** A method where an entrepreneur uses where he or she establishes definitive promotion objectives and then determines the amount and cost of the promotion to reach these objectives by costing each element of the promotion mix needed.

**Percent-of-sales method** Involves applying a fixed percentage to either past or future sales figures.

**Affordable method** Involves setting the promotion budget at the level the technology entrepreneur thinks the company can afford.

## ADDITIONAL READING

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Dovleac, L., Bălăşescu, M., 2012. Marketing mix for consumer high technology products. *Bulletin of the Transylvania University of Brasov. Series V: Economic Sciences* 5 (1), 41–8. The paper analyzes the marketing mix for high technology products. It details the fundamental marketing strategies used by companies in high technology for targeting consumer needs.

Jones, R., Suoranta, M., Rowley, J., 2013. Strategic network marketing in technology SMEs. *Journal of Marketing Management* 29 (5/6), 671–97. This article details a study that investigates

strategic networks from the perspective of entrepreneurial marketing. The study develops the "Strategic Network Marketing Model," which classifies six types of strategic networks and their respective opportunities to create value.

Pullen, J.P., 2011. Dollars, sense and social media marketing. *Entrepreneur* 39 (6), 59–61. The article describes the use of social media marketing. It explains digital marketing and brand development strategies within online social networks Facebook and Twitter.

## WEB RESOURCES

<http://www.census.gov/>: This site provides the latest data from the U.S. Census on demographic trends in the United States and around the world.

<http://www.emarketer.com/>: This is a for-profit market research site that is a leading destination for technology ventures to understand market trends.

<http://www.gartner.com/>: The Gartner Group is recognized around the world as a leader in the analysis of market and economic data to detect and describe market trends.

<http://www.marketingpower.com/Pages/default.aspx>: This is the website for the American Marketing Association, the premiere marketing trade and academic community. There are a number of useful resources on this site, including definitions of all the key marketing terms.

<http://www.marketresearch.com/>: This website has free and fee-based market reports on a wide range of industries.

## ENDNOTES

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