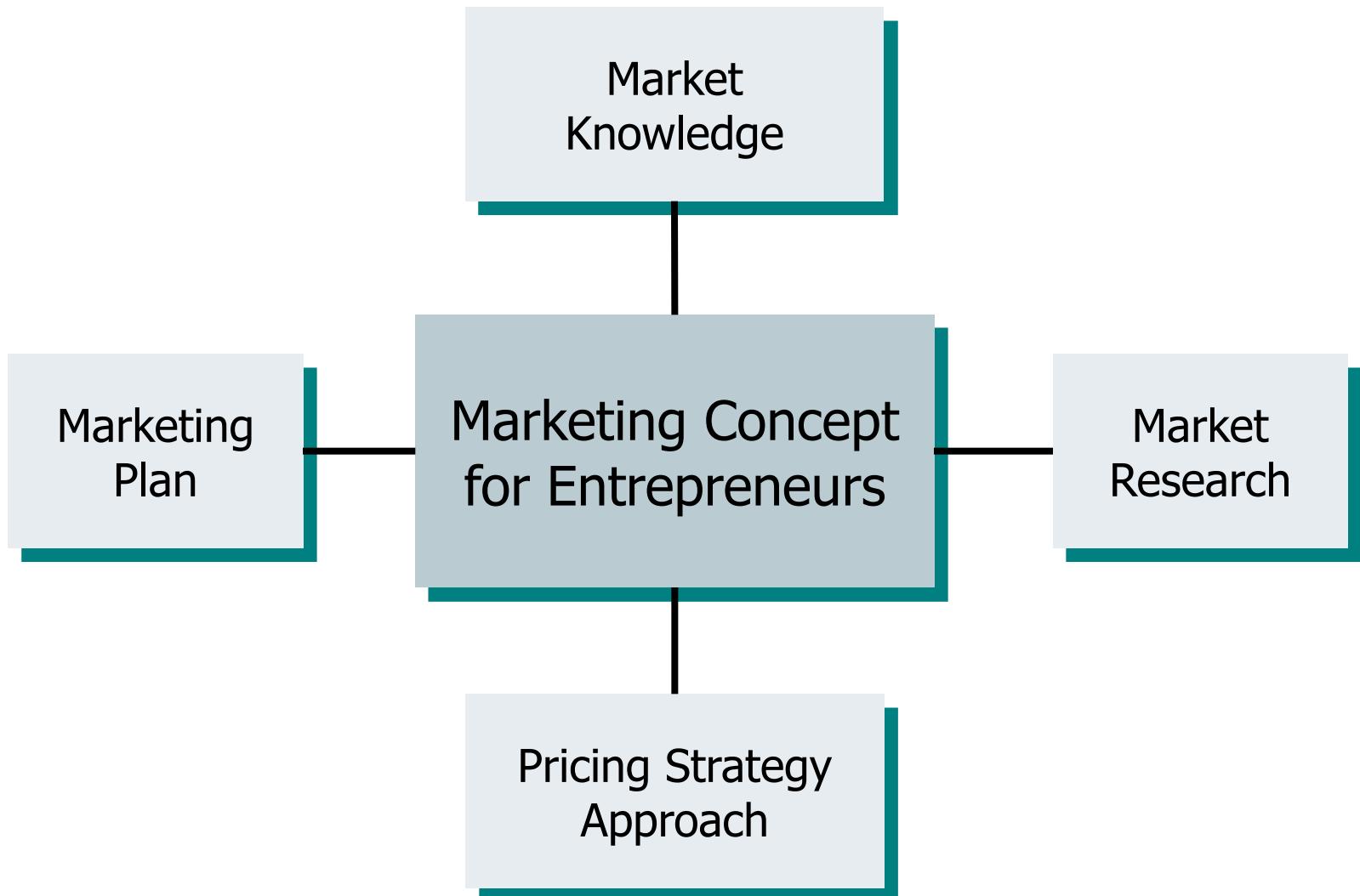


Entrepreneurship

“The generation and use of market research enables a management team to learn about changes in the market faster than the competition, making it a major component of competitive rationality and competitive advantage” - Peter R. Dickson

The Marketing Aspects of New Ventures

The Marketing Concept for Entrepreneurs



Table

10.1

Common Elements in the Marketing Skills of Great Entrepreneurs

1. They possess unique environmental insight, which they use to spot opportunities that others overlook or view as problems.
2. They develop new marketing strategies that draw on their unique insights. They view the status quo and conventional wisdom as something to be challenged.
3. They take risks that others, lacking their vision, consider foolish.
4. They live in fear of being preempted in the market.
5. They are fiercely competitive.
6. They think through the implications of any proposed strategy, screening it against their knowledge of how the marketplace functions. They identify and solve problems that others do not even recognize.
7. They are meticulous about details and are always in search of new competitive advantages in quality and cost reduction, however small.
8. They lead from the front, executing their management strategies enthusiastically and autocratically. They maintain close information control when they delegate.
9. They drive themselves and their subordinates.
10. They are prepared to adapt their strategies quickly and to keep adapting them until they work. They persevere long after others have given up.
11. They have clear visions of what they want to achieve next. They can see further down the road than the average manager can see.

Marketing Terms

- Market
 - A group of consumers (potential customers) who have purchasing power and unsatisfied needs.
 - A new venture will survive only if a market exists for its product or service.
- Marketing Research
 - The gathering of information about a particular market, followed by analysis of that information.

Defining the Research Purpose and Objectives

- Where do potential customers go to purchase the good or service in question?
- Why do they choose to go there?
- What is the size of the market? How much of it can the business capture?
- How does the business compare with competitors?
- What impact does the business's promotion have on customers?
- What types of products or services are desired by potential customers?



Gathering Information

- Secondary Data
 - Information that has already been compiled.
 - Advantage: Less expensive and available
 - Disadvantages: outdated, lacks specificity, questionable validity
 - Sources: internal and/or external sources
- Primary Data
 - Information that is gathered specifically for the research at hand.
 - Surveys
 - Experimentation

Table

10.2

Comparison of Major Survey Research Techniques

Criteria	Direct/Cold Mailing	Mail Panels	Telephone	Personal In- Home	Mall Intercept
Complexity and versatility	Not much	Not much	Substantial, but complex or lengthy scales difficult to use	Highly flexible	Most flexible
Quantity of data	Substantial	Substantial	Short, lasting typically between 15 and 30 minutes	Greatest quantity	Limited, 25 minutes or less
Sample control	Little	Substantial, but representativeness may be a question	Good, but nonlisted households can be a problem	In theory, provides greatest control	Can be problematic; sample representativeness may be questionable
Quality of data	Better for sensitive or embarrassing questions; however, no interviewer is present to clarify what is being asked		Positive side, interview can clear up any ambiguities; negative side, may lead to socially accepted answers	There is the chance of cheating	Unnatural testing environment can lead to bias
Response	In general, low; as low as 10%	70–80%	60–80%	Greater than 80%	As high as 80% rates
Speed	Several weeks; completion time will increase with follow-up mailings	Several weeks with no follow-up mailings, longer with follow-up mailings	Large studies can be completed in 3 to 4 weeks	Faster than mail but typically slower than telephone surveys	Large studies can be completed in a few days
Cost	Inexpensive; as low as \$2.50 per completed interview	Lowest	Not as low as mail; depends on incidence rate and length of questionnaire	Can be relatively expensive, but considerable variability	Less expensive than in-home, but higher than telephone; again, length and incidence rate will determine cost
Uses	Executive, industrial, medical, and readership studies	All areas of marketing research, particularly useful in low-incidence categories	Particularly effective in studies that require national samples	Still prevalent in product testing and other studies that require visual cues or product	Pervasive-concept tests, name tests, package tests, copy test prototypes

Source: Peter R. Dickson, *Marketing Management* (Fort Worth, TX: The Dryden Press, 1994), 114.

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Developing an Information-Gathering Instrument

- Make sure each question pertains to a specific objective in line with the purpose of the study.
- Place simple questions first and difficult-to-answer questions later in the questionnaire.
- Ask: “How could this question be misinterpreted?” Rework questions avoid misunderstanding.
- Avoid leading and biased questions.
- Give concise but not complete directions in the questionnaire.
- Use scaled questions rather than simple yes/no questions.

Interpreting and Reporting the Information

- Data organized and interpreted is information.
 - Tables, charts, graphs
 - Descriptive statistics—mean, mode, median
- Market research subject areas:
 - Sales
 - Distribution
 - Markets
 - Advertising
 - Products



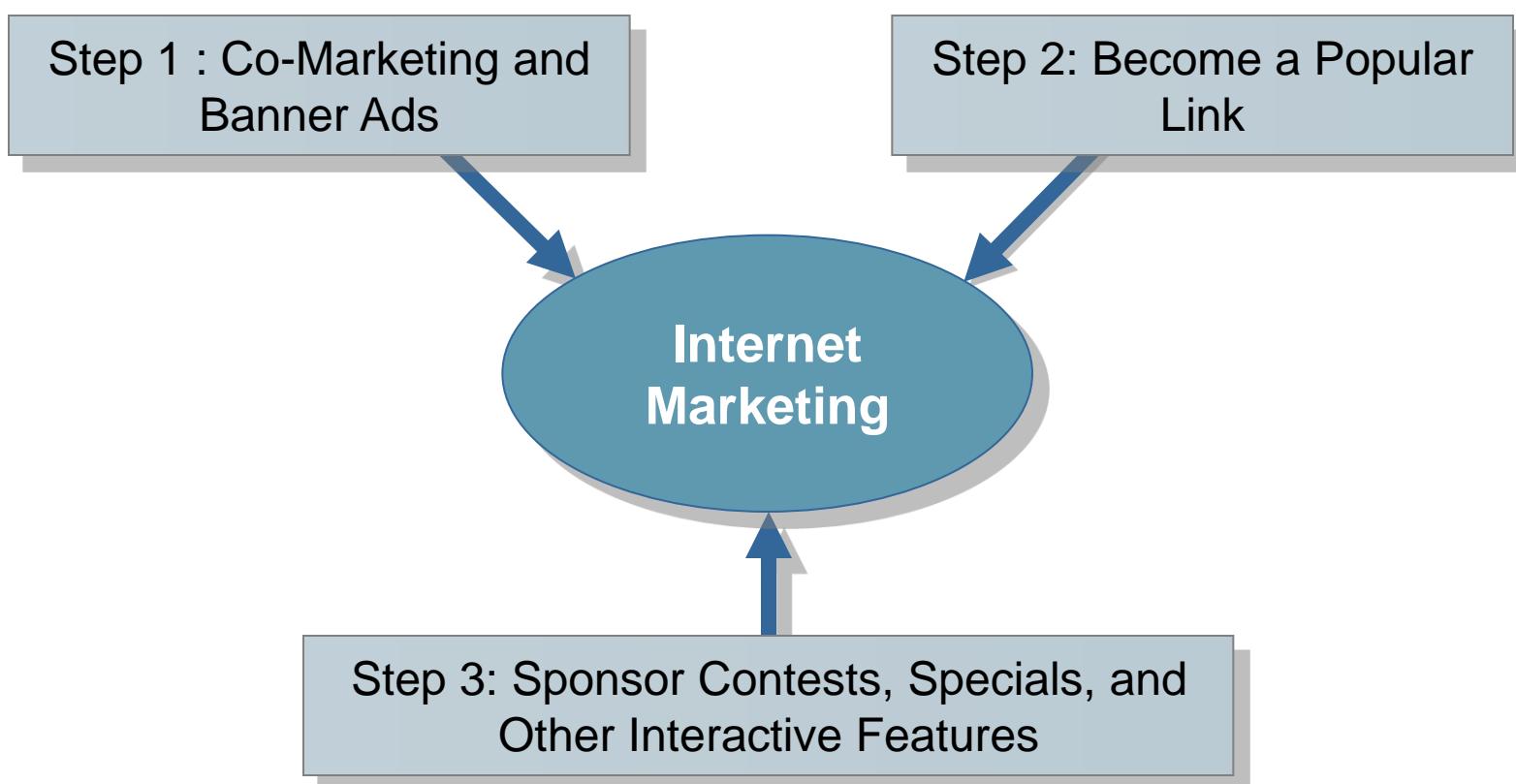
Inhibitors to Market Research and Reporting

- Mistaken beliefs that inhibit the use of marketing research:
 - **Cost:** research is too expensive.
 - **Complexity:** research techniques rely on overly complex sampling, surveying, and statistical analysis.
 - **Strategic Decisions:** only major strategic decisions need to be supported through marketing research.
 - **Irrelevancy:** research data will contain either information that merely supports what is already known or irrelevant information.

Internet Marketing

- The Internet:
 - Allows the firm to increase its presence and brand equity in the marketplace.
 - Allows the company to cultivate new customers.
 - Can improve customer service and lower costs by allowing customers to serve themselves.
 - Provides a mechanism for information sharing and collection at a fraction of prior costs.
 - Is a direct-sales distribution channel where the seller-buyer relationship is immediate, and the waiting period that follows a traditional marketing campaign is almost eliminated.

Marketing on the Internet



Things to Do	Things to Avoid
Provide a description of the firm	Scrolling
Ensure fast loading times	Large graphic files
Create consistent navigation pathways	Reliance on one browser
Make the site interactive	Broken links
Register with search engines	Excessive use of plug-ins
Register the domain name	Obscure URLs
Use trademarks appropriately	Copycatting other sites
Market the site in other materials	Allowing the website to grow stale

Source: John H. Lindgren, Jr., "Marketing on the Internet," *Marketing Best Practices* (Fort Worth, TX: Harcourt College Publishers, 2000), 559.

Developing the Marketing Concept

- Marketing Philosophies
 - Production-driven philosophy
 - Sales-driven philosophy
 - Consumer-driven philosophy
- Factors in Choosing a Marketing Philosophy
 - Competitive pressure
 - Entrepreneur's background
 - Short-term focus

Developing the Marketing Concept (cont'd)

- Market Segmentation

- The process of identifying a specific set of characteristics that differentiate one group of consumers from the rest.
- Demographic variables
 - Age, marital status, sex, occupation, income, location
- Benefit variables
 - Convenience, cost, style, trends (depending on the nature of the particular new venture)

Table

10.4

Consumer Characteristics

Personal Characteristics	Innovators (2–3%)	Early Adopters (12–15%)	Early Majority (33%)	Late Majority (34%)	Laggards (12–15%)
1. Social class	Lower upper	Upper middle	Lower middle	Upper lower	Lower lower
2. Income	High income (inherited)	High income (earned from salary and investment)	Above-average income (earned)	Average income	Below-average income
3. Occupation	Highest professionals Merchants Financiers	Middle management and owners of businesses medium-sized	Owners of small businesses Nonmanagerial office and union managers	Skilled labor	Unskilled labor
4. Education	Private schooling	College	High school Trade school	Grammar school, some high school	Very little—some grammar school
5. Housing	Inherited property Fine mansions	Large homes— good suburbs or best apartments	Small houses Multiple-family dwellings	Low-income housing in urban- renewal projects	Slum apartments
6. Family influence	Not family oriented Children in private school or grown	Children's social advancement important Education important	Child centered and home centered	Children taken for granted	Children expected to raise themselves
7. Time orientation	Present oriented, but worried about impact of time	Future oriented	Present oriented	Present (security) oriented	Tradition oriented, live in the past

Source: Roy A. Lindberg and Theodore Cohn, *The Marketing Book for Growing Companies That Want to Excel* (New York: Van Nostrand Reinhold, 1986), 80–81. Reprinted with permission.

Table

10.4

Consumer Characteristics (cont'd)

Psychological Characteristics	Innovators (2–3%)	Early Adopters (12–15%)	Early Majority (33%)	Late Majority (34%)	Laggards (12–15%)
1. Nature of needs	Self-actualization needs (realization of potential)	Esteem needs (for status and recognition by others)	Belonging needs (with others and groups)	Safety needs (freedom from fear)	Survival needs (basic needs)
2. Perceptions	Cosmopolitan in outlook	Prestige Status conscious Aspire to upper class	Local aspirations and local social acceptance	Home and product centered	Live from day to day
3. Self-concept	Elite	Social strivers, peer group leaders, venturesome	Respectability from own reference groups and home	Security, home centered, aggressive, apathetic, no hope	Fatalistic, live from day to day
4. Aspiration groups	British upper class	Innovator class	In own social strata, dissociated from upper lower	Others in this classification and in early majority, dissociated from lower lower	Don't aspire
5. Reference groups	Sports, social, and travel groups	Dominate industry and community organizations Golf, college, and fraternity	Social groups of this strata: chambers of commerce, labor unions, family, church, P.T.A., auxiliaries	Family, labor unions	Ethnic group oriented

Source: Roy A. Lindberg and Theodore Cohn, *The Marketing Book for Growing Companies That Want to Excel* (New York: Van Nostrand Reinhold, 1986), 80–81. Reprinted with permission.

Consumer Behavior

- Consumer Behavior
 - The types and patterns of consumer characteristics.
 - Personal characteristics
 - Psychological characteristics
- Major Consumer Classifications:
 1. Convenience goods
 2. Shopping goods
 3. Specialty goods
 4. Unsought goods
 5. New products

Table

10.5

Changing Priorities and Purchases in the Family Life Cycle

Stage	Priorities	Major Purchases
Fledgling: teens and early 20s	Self; socializing; education	Appearance products, clothing, automobiles, recreation, hobbies, travel
Courting: 20s	Self and other; pair bonding; career	Furniture and furnishings, entertainment and entertaining, savings
Nest building: 20s early 30s	Babies and career	Home, garden, do-it-yourself and items, baby-care products, insurance
Full nest: 30–50s	Children and others; career; midlife crisis	Children's food, clothing, education, transportation, orthodontics; career and life counseling
Empty nest: 50–75	Self and others; relaxation	Furniture and furnishings, entertainment, travel, hobbies, luxury automobiles, boats, investments
Sole survivor: 70–90	Self; health; loneliness	Health care services, diet, security and comfort products, TV and books, long-distance telephone services

Source: Peter R. Dickson, *Marketing Management* (Fort Worth, TX: The Dryden Press, 1994), 91. Reprinted with permission of South-Western, a division of Thomson Learning: <http://www.thomsonrights.com>.

Developing a Marketing Plan

- Marketing Planning
 - The process of determining a clear, comprehensive approach to the creation of customers.
- Elements of Marketing Planning
 - Current marketing research
 - Current sales analysis
 - Marketing information system
 - Sales forecasting
 - Evaluation

Marketing Planning (cont'd)

- Current Marketing Research

- The purpose of marketing research is to identify customers—target markets—and to fulfill their desires.

- Areas of Market Research

- The company's major strengths and weaknesses
- Market profile
- Current and best customers
- Potential customers
- Competition
- Outside factors
- Legal changes

Current Sales Analysis

- Sales Research Questions:

- Do salespeople call on their most qualified prospects on a proper priority and time-allocation basis?
- Does the sales force contact decision makers?
- Are territories aligned according to sales potential and salespeople's abilities?
- Are sales calls coordinated with other selling efforts, such as trade publication advertising, trade shows, and direct mail?
- Do salespeople ask the right questions on sales calls? Do sales reports contain appropriate information? Does the sales force understand potential customers' needs?
- How does the growth or decline of a customer's or a prospect's business affect the company's own sales?

Marketing Information System

- Marketing Information System
 - Compiles and organizes data relating to cost, revenue, and profit from the customer base for monitoring the strategies, decisions, and programs concerned with marketing.
- Factors affecting the value of a system:
 - Data reliability
 - Data usefulness or understandability
 - Reporting system timeliness
 - Data relevancy
 - System cost

Market Planning

- Sales Forecasting

- The process of projecting future sales through historical sales figures and the application of statistical techniques.

- Evaluation

- Evaluating marketing plan performance is important so that flexibility and adjustment can be incorporated into marketing planning.



The Market Plan: A Structured Approach

1. Appraise marketing strengths and weaknesses, emphasizing “competitive edge” factors.
2. Develop marketing objectives, along with short- and intermediate-range sales goals.
3. Develop product/service strategies.
4. Develop marketing strategies to achieve intermediate- and long-range sales goals and long-term marketing objectives.
5. Determine a pricing structure.

Pricing Strategies

- Factors affecting the pricing decision:
 - The degree of competitive pressure
 - The availability of sufficient supply
 - Seasonal or cyclical changes in demand
 - Distribution costs
 - The product's life-cycle stage
 - Changes in production costs
 - Prevailing economic conditions
 - Customer services provided by the seller
 - The amount of promotion
 - The market's buying power

Pricing Strategies (cont'd)

- Psychological factors affecting the pricing decision:
 - The quality of a product is interpreted by customers according to the level of the item's price.
 - Customer groups shy away from purchasing a product where no printed price schedule is available.
 - Emphasis on the monthly cost of purchasing an expensive item results in greater sales than an emphasis on total selling price.
 - Buyers expect to pay even-numbered prices for prestigious items and odd-numbered prices for commonly available goods.
 - The greater the number of customer benefits the seller can convey about a product, the less will be the price resistance.

Table

10.6

Pricing for the Product Life Cycle

Product Life Cycle Stage	Pricing Strategy	Reasons/Effects
Introductory Stage		
Unique product	Skimming —deliberately setting a high price to maximize short-term profits	Initial price set high to establish a quality image, to provide capital to offset development costs, and to allow for future price reductions to handle competition
Nonunique product	Penetration —setting prices at such a low level that products are sold at a loss	Allows quick gains in market share by setting a price below competitors' prices
Growth Stage		
Maturity Stage	Consumer pricing —combining penetration and competitive pricing to gain market share; depends on consumer's perceived value of product	Depends on the number of potential competitors, size of total market, and distribution of that market
Decline Stage	Demand-oriented pricing —following a flexible strategy that bases pricing decisions on the level of consumer demand	Sales growth declines; customers are very price-sensitive demand level for the product
Loss leader pricing —pricing the product below cost in an attempt to attract customers to other products		
Product possesses little or no attraction to customers; the idea is to have low prices bring customers to newer product lines		

Source: Adapted from Colleen Green, "Strategic Pricing," *Small Business Reports* (August 1989): 27–33.

Table

10.7

Pricing Strategy Checklist

Strategy Objective	When Generally Used	Procedure	Advantages	Disadvantages
Skim the cream of the market for high short-term profit (without regard for long term).	No comparable competitive products. Drastically improved product or new product innovation. Large number of buyers. Little danger of competitor entry due to high price, patent control, high R & D costs, high promotion costs, and/or raw material control. Uncertain costs. Short life cycle. Inelastic demand.	Determine preliminary customer reaction. Charge premium price for product distinctiveness in short run, without considering long-run position. Some buyers will pay more because of higher present value to them. Then gradually reduce price to tap successive market levels (i.e., skimming the cream of a market that is relatively insensitive to price). Finally, tap more sensitive segments.	Cushions against cost overruns. Requires smaller investment. Provides funds quickly to cover new-product promotion and initial development costs. Limits demand until production is ready. Suggests higher value in buyer's mind. Emphasizes value rather than cost as a guide to pricing. Allows initial feeling-out of demand before full-scale production.	Assumes that a market exists at high price. Results in ill will in early buyers when price is reduced. Attracts competition. Likely to underestimate ability of competitors to copy product. Discourages some buyers from trying the product (connotes high profits). May cause long-run inefficiencies.
Slide down demand curve to become established as efficient manufacturer at optimum value before competitors become entrenched, without sacrificing long-term objective (e.g., obtain satisfactory share of market).	By established companies launching innovations. Durable goods. Slight barriers to entry by competition. Medium life span.	Tap successive levels of demand at highest prices possible. Then slide down demand curve faster and farther than forced to in view of potential competition. Rate of price change is slow enough to add significant volume at each successive price level, but fast enough to prevent large competitor from becoming established on a low-cost volume basis.	Emphasizes value rather than cost as a guide to pricing. Provides rapid return on investment. Provides slight cushion against cost overruns.	Requires broad knowledge of competitive product developments. Requires much documented experience. Results in ill will in early buyers when price is reduced. Discourages some buyers from buying at initial high price.
Compete at the market price to encourage others to produce and promote the product to stimulate primary demand.	Several comparable products. Growing market. Medium to long product life span. Known costs.	Start with final price and work back to cost. Use customer surveys and studies of competitors' prices to approximate final price. Deduct selling margins. Adjust product, production, and selling methods to sell at this price and still make necessary profit margins.	Requires less analysis and research. Existing market requires fewer promotion efforts. Causes no ill will in early buyers because price will not be lowered soon.	Limited flexibility. Limited cushion for error. Slower recovery of investment. Must rely on other differentiating tools.

Source: Roy A. Lindberg and Theodore Cohn, *The Marketing Book for Growing Companies That Want to Excel* (New York: Van Nostrand Reinhold, 1986), 116–117. Reprinted with permission.

Table

10.7

Pricing Strategy Checklist (cont'd)

Market penetration to stimulate market growth and capture and hold a satisfactory market share at a profit through low prices.	Long product life span. Mass market. Easy market entry. Demand is highly sensitive to price. Unit costs of production and distribution of output increases. Newer product. No "elite" market willing to pay premium for newest and best.	Charge low prices to create a mass market, resulting in cost advantages derived from larger volume. Look at lower end of demand curve to get price low enough to attract a large customer base. Also review past and competitor prices.	Discourages actual and potential competitor inroads because of apparent low profit margins. Emphasizes value more than cost in pricing. Allows maximum exposure and penetration in minimum time. May maximize long-term profits if competition is minimized.	Assumes volume is always responsive to price reductions, which isn't always true. Relies somewhat on glamour and psychological pricing, which doesn't always work. May create more business than production capacity available. Requires significant investment. Small errors often result in large losses.
Preemptive pricing to keep competitors out of market or eliminate existing ones.	Used more often in consumer markets. Manufacturers may use this approach on one or two products, with other prices meeting or higher than those of competitors.	Price at low levels so that market is unattractive to possible competitors. Set prices as close as possible to total unit cost. As increased volume allows lower cost, pass advantage to buyers via lower prices. If cost declines rapidly with increases in volume, can start price below cost (can use price approaching variable costs).	Discourages potential competitors because of apparent low profit margins. Limits competitive activity and expensive requirements to meet them.	Must offer other policies that permit lower price (limited credit, delivery, or promotions). Small errors can result in large losses. Long-term payback period.

Source: Roy A. Lindberg and Theodore Cohn, *The Marketing Book for Growing Companies That Want to Excel* (New York: Van Nostrand Reinhold, 1986), 116–117. Reprinted with permission.

Key Terms and Concepts

- consumer-driven philosophy
- consumer pricing
- demand-oriented pricing
- experimentation
- Internet marketing
- loss leader pricing
- market
- marketing research
- market segmentation
- penetration
- primary data
- production-driven philosophy
- sales-driven philosophy
- secondary data
- skimming
- surveys