Lecture 7

The Company Marketing

The Team

- Every s/w entrepreneur org needs :
  - Sales and business development
  - Technology development and support
  - Administrtaion (accounting, payroll, etc)
- So, ideally, each start-up should have at least 3 people to take care of these and manage potential growth.
- Important to identify team members' strengths and weaknesses
- Founder could map out their future roles .
- A well-rounded team should include a mix of people and skills
- "To justify one's existence, one needs to be able to continue providing value."

The Team - Chief Executive Officer (CEO)

- CEO, President, Managing Director → usually someone with background in sales and marketing.
  - Gathers feedback and data from various sources → employees, customers, partners.
  - Processes this info
  - Lays down next course of action to the entire team
  - Stresses the core values of success, persistence, vision and a collective intellectual pool of resources.
  - His leadership is not in the title he holds but in the actions he undertakes.

- The CEO is the most rewarded individual in any org.
- For the technopreneur who lacks the necessary qualities to manage the venture → should look for someone who has these qualities and shares with him his vision → cede the CEO function to him.

The Team - Chief Technology Officer (CTO)

- CTO → the second most important person in a technology setup is the technology man.
  - Is in charge of the entire technology team
  - Aware of technological trends, makes key product recommendations and listens to feedback on all sides
  - Evaluates competitors' solutions, looking for technical strengths & weaknesses
  - Works closely with CEO
    - CTO → provides input on what strategy company should take

      + CEO → provides feedback on market demands

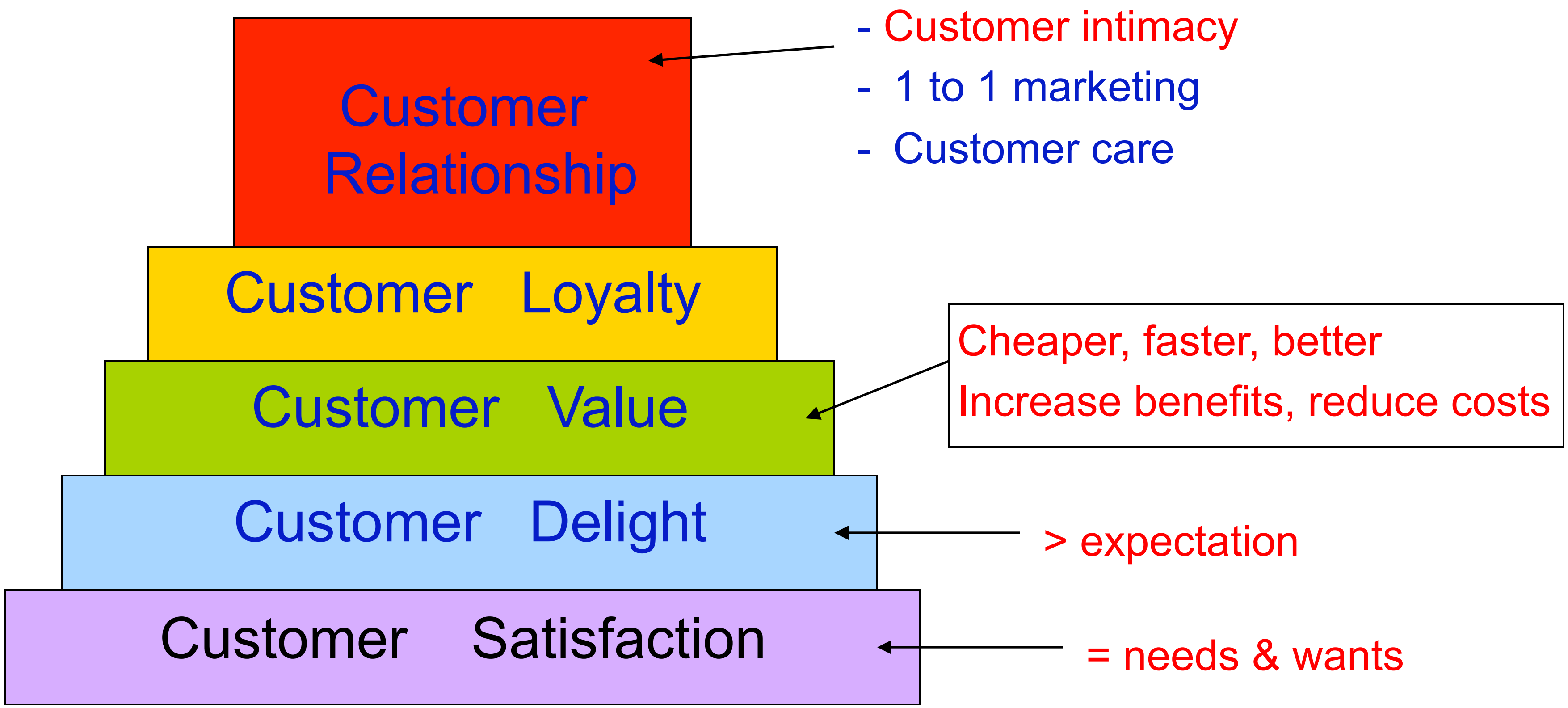
      → which direction to take.

- The CTO usually commands the second greatest compensation plan in org. → sometimes, it is comparable to the CEO's.

The Team - Chief Financial Officer (CFO)

- CFO → third most important person in the org.
  - he is the banker, the treasure, the accounts person → he is realistic
  - In the New Economy, the key decision maker is the stock market
    - → its upturn spurs spending, downturn cuts spending.
    - → key gauge of how a particular sector is performing
    - → Its reactions give info on consumer expectations, demands and potential.
  - he understands → without the stock market, there will be no innovation
  - His interest is in growth and ensure that investors are satisfied with corporate performance, which are in line with promised milestones.
  - Ensures day-to-day viability of the business
  - Responsible for accounts and payments, corporate budgets and spending.
  - He is the administrator → when CEO is absent, CFO handles daily operational issues.

The Marketing Plan



The Marketing Plan

- A firm's **marketing mix** is the set of controllable, tactical marketing tools that it uses to produce the response it wants in the target market.
- Most marketers organize their marketing mix into four category : the 4Ps (Product, price, promotion and place)
- Marketing can vary significantly, depending on the way the firms do business
- E.g. A software firm can sell directly through its Web Site or through retail stores, or it can license its product to another company to be sold under that company's brand name. a Start-up that plan to sell directly to the public would set up its promotions program in a much different way than a firm planning to license its products to other firms. A firm's marketing program should be consistent with its business model and its overall business plan.

The Marketing Plan

- Products
  - Price
  - Promotion
  - Product
  - Place (distribution)

- Services
  - \+ People
  - \+ Process
  - \+ Physical evidence (eg. Logo)

Branding

- Entrepreneurs must build a brand from scratch for a start-up → must ultimately ensure customers strongly identify themselves with the company's brand → see your company as being different from others in a way that creates value for them as customers.
- What is a brand?
  - Is a promise
  - A a guarantee
  - Is a reputation
  - Is an unwritten warrantee
  - Is an expectation if performance
  - Is a collection of memories

Branding

- What is a brand?
  - Is a set of attributes (+ve or –ve) that people associate with a company
  - Positive Attributes:
    - Trustworthy, innovative, dependable, easy to deal with etc
  - Negative Attributes:
    - Cheap, unreliable, arrogant, difficult to deal with etc
- Companies monitor the integrity of their brand through **brand management**
- Brand management is a program used to protect the image and value of an organization's brand in consumers' minds.
- E.g. Sunkist were discovered that some of its oranges weren't fresh, it would take immediate steps to correct the problem

Build Your Brand

- ## My Brand
  - Business name
  - Logo
  - Reputation
  - Brand personality
  - Communicate brand to target market

- ## 7 Ways to Build a Great Brand
  - Provide high-quality product/service
  - Maintain high ethical standards
  - Define product/service clearly
  - Treat employees well
  - Make ads positive and informative
  - Associate company with a charity
  - Be involved in community

Market Segmentation

- Market segment = consumers who have similar response to a certain type of marketing
- Segmentation methods:
  - Geographic
  - Demographic
  - Psychographic
  - Behavioral

- Focus Your Brand
  - A brand is a name, term, sign, logo, design that identifies a product/ service.
  - A brand represents a company's promise to consistently meet customer expectations.
  - Tightly focused brands perform better because customers know what to expect

Market Positioning

- Distinguish your product/service from others offered to your market segment.

- Goal: clearly communicated how your product/service differs from competitors.

- Positioning statement:

  Ex: (General Motors) is the (leading US automobile maker) that (provides affordable cars) to (American families)

Marketing Advantages of a Strong Brand

- Improved perception of product performance
- Greater loyalty
- Less vulnerable :
  - To competitive marketing actions
  - To marketing crises
- Larger margins
- Customers more price inelastic to price increases

Traditional Marketing vs. CRM

Traditional Marketing	Customer-Relationship Management
Sells one product at a time to as many customers as possible through product managers.	Sell as many product as possible to one customer at a time through customer managers.
Differentiates products.	Differentiates customers.
Tries to acquire a constant stream of new customers.	Tries to get a constant stream of new business from existing customers.
Competes for market share.	Competes for share of customers.

Traditional Marketing vs. CRM

Traditional Marketing	Customer-Relationship Management
Manages products	Manages customer relationships
Talks to customers – tell and sell.	Engages in a dialogue with customers – listen and learn.
Disseminates the same info to everyone in predigested form.	Allows individual customers access to the info they want, where & when they want it, and in the form they want it.
Internally focused. Set up production → produce → distribute → sell	Interact with customers → diagnose needs → developed customised delivery plans → track results

Traditional Marketing vs. CRM

Traditional Marketing	Customer-Relationship Management
Sells products and/or services.	Sells prodices (product/services), things that look like products but act like services (eg. Customers want communication and not phones, entertainment not CDs, clean clothes not laundry products, meals not foodstuffs).
Believes that customers must be treated equally.	Believes that customers must be traeted individually.

Four Key Concepts of CRM

- Customer retention is the key to long-term profits.
  - Raise customer retention by 5 % → companies can increase lifetime value of average customer by 25 % - 100 %.
- Customer satisfaction does not ensure customer loyalty
  - Satisfied vs. completely satisfied.
- Customers aren't created equal
  - Top 20 % of customers are responsible for over 75 % of total revenues. Over 90 % of revenues come from existing customers.
  - Top 20 % of customers delivers 100 % of the profits.
- Customers must grant their permission to be marketed

Basic Steps to CRM

1. Identify your customers.

2. Differentiate your customers.
   - Differentiate them by their value to your company and by their needs

3. Interact with your customers.

4. Customize some aspects of your enterprise’s behaviour.

Technology and CRM

- The previous 4 basic steps to CRM may be simple if you have a few customers, but they are not simple if you have thousands and hundreds of thousands of customers.

- This is where technology comes in. CRM is possible without sophisticated computing and communications technology, but technology makes it much easier.

- Once your business reaches a certain size, technology is essential. You simply cannot do CRM efficiently without it.

Technology and CRM

- Technology that is critical for CRM :

1. Database technology that allows you to store large volumes of information about individual customers.
   → issue of 5 years ago

2. And more importantly, to analyze all this information.
   → issue of 3-5 years ago

3. Current trend, customers have "say" on everything….
   → current issue….. Foster customer loyalty….. HOW?

Financing in Rounds

- Capital raising always comes in stages
- Financing in rounds – investors usually put I only a small amount of money initially, increasing the amount gradually
- Reasons for different rounds of investments:
  - Significant risk involved in start-up
  - Risks decreases as the business manages to prove its technological concept, develops a products or service, market the product and generate income through selling it
  - Able to project cash flows more accurately over time
- Hopefully for the technopreneur, the value of the business increases at each stage.

Financing in Rounds (for the technopreneur)

- Financing in rounds → investors usually put in only a small amount of money initially, increasing the amount gradually.
- Usually, technopreneur is happy with this arrangement → the larger the initial amount investors put in, the more equity he/she would have to give away.
- He/she prefers only to raise what he needs → as the business becomes progressively less risky, he/she can get a better valuation.
- Warning → there is danger that he/she may not find funding at a critical stage.

The Investors - Incubation Centres

- Incubation centres :
  - like lab centres that hatch many ideas under one roof.
  - share resources a their main contribution
  - Often understand business dynamics and needs
  - Provide free office space, consultancy services, internet access, data centre facilities and networking opportunities within the same centre and elsewhere.
  - Allow founders to concentrate on their early stage core competencies of research and development without worrying about raising money.

The Investors - Incubation Centres

- Incubation centres :
  - As the start-up matures, they provide mentorship and networking opportunities so that newly researched and developed products could be cross-sold to other incubates and matured further before they hit the markets.
  - Once the need for capital & expansion rises, they work on structuring business plans and financials.
  - They provide assistance to plug gaps prior to pitching to VC firms for growth capital.

The Investors - Incubation Centres

- Advantages :
  - Great idea for technopreneurs who lack the business know-how and commercial viability of their products.
  - Great place to hone business skills before stepping out on their own.

- Disadvantages :
  - They will take 10 percent to 30 percent share of the equity, depending on the roles that play and the assistance they offer in the projects.

The Investors - Incubation Centres

- Software Entrepreneurs should check to see if incubators …
  - Provide R&D facilities (eg. Software development tool kits, application development, training guidance and technical support).
  - Provide help on the commercial viability of their products
  - Feasibility studies
  - Implementation plans
  - Support in sales and marketing
  - Hardware & software licences (for development of scalable solutions)

The Investors - Incubation Centres

- Important → choose your incubation firm carefully as the wrong choice can kill any or all potential that a start-up may have.
- Technopreneurs, once have decided to work with an incubation firm, should ensure an agreement is drafted, setting out both parties' roles and responsibilities → to lessen any chance of future disputes.
- Those who have mangement & technical expertise but are too early in the cycle to approach a VC and do not want to use incubation → look for **angel**.

The Investors - Angels

- Angels are …
  - usually high net worth individuals with a budget for investments.
  - Are often stock market investors or observers who understands the stock market and the valuation theory behind companies listed
  - Prefer to get closer to the value chain by investing directly in start-ups.
- Shared characteristics among angels :
  - Understanding of how the stock market functions
  - Understands the valuation game
  - Understands technology innovation and its evolution
  - Understands the business need for capital
- E.g. Real estate companies, landlords etc

The Investors - Angels

- Angel is the key driving force behind most start-ups. Angel is responsible for the largest source of start-up capital in new businesses → from $10k - $500k each (average = $50k)

- Angels are …
  - not interested in controlling the start-up's business
  - will typically invest in companies within their immediate geographical location
  - Want to be mentors to the start-up and ensure their capital is well taken care off.

- Angels look for sincerity and honesty in the founders.

- E.g. Investment strategist, retired civil govt servant, friends, parents, teachers, referrals by business associates, friends, investment bankers and business brokers etc

The Investors - Angels

- Benefits of going to angel (vs. VC or incubator) :
  - angels are less formal (does not need a complete business plan, seldom question founders on value creation or competitive advantage)
  - They do not tie down founders with mandates, milestones and performance clauses
  - Angel is less likely (compared to VC & incubator) to have hidden agenda (ie. try to get cheap proprietary info for their portfolio companies).
  - Will simply discuss the opportunity and his potential rewards for his contribution (expertise and/or money).

The Investors - Angels

- Disadvantages
  - Little follow-on money
  - Want a say in firm
  - Could turn out to be “devils”
  - No national reputation to leverage

The Investors - Government Assistance

- Last resource
- Via enterprise grants, innovation grants or venture capital assistance.
- The motivations for the government :
  - Potentially boost employment
  - Create opportunities
  - Enhance a weak stock market,
  - They need to boost use of technology
  - They need solutions which can make businesses react efficiently to business cycles and changing business environments
  - They want to see companies lower costs, penetrate new markets and become more efficient

The Investors - Government Assistance - Motivations

- Government assistance can be used for subsidizing R&D costs and the building up of the start-up’s core business model.
- In the US, Small Business Administration has funded companies like Apple, IBM and Hewlett Packard.
- Advantage → Government grants need not be repaid.
- Disadvantage → the amounts ($10k - $500k) is only enough for R&D work, not for cash flow.

The Investors - Government Assistance

- If a start-up is looking for more than R&D money, they should consider approaching government-backed venture capital companies.
  - Key agenda for govt venture funds → how the project will benefit the economy and the country.
  - Having the govt as a shareholder can open doors and provide credibility for the new company

Venture Capitalist vs Angles

Main Differences	Angles	Venture Capitalist
Personal	Entrepreneur	Investors
Firms funded	Small, early-stage	Large, mature
Due diligence done	Minimal	Extensive
Location of investment	Of concern	Not important
Contract used	Simple	Comprehensive
Monitoring after investment	Active, hands-on	Strategic
Exiting the firm	Of lesser concern	Highly important
Rate of return	Of lesser concern	Highly important

Raising Capital

- There are 2 types of financing to be considered :
  - Debt Financing (asset-based financing)
    - Involve a payback of the funds + fees (interest) for the use of the money
    - Take on a debt without giving up ownership in the venture
  - Equity Financing
    - Involve the sale of some of the ownership in venture
    - To relinquish a percentage of ownership in order to avoid having to borrow
- Most case, a combination of debt and equity proves most appropriate

Raising Capital - Debt Financing

- **Debt Financing (asset-based financing)**
  - Involve interest-bearing --> eg. a loan
  - Requires that some assets be used as collateral
  - Short-term financing (< 1 year) --> used to provide working capital for inventory, AR or operations of the business.
  - Long-term financing (> 1 year) --> used to purchase assets (machinery, building, land)

Raising Capital - Debt Financing

- **Advantages**
  - No relinquishment of ownership is required
  - More borrowing allows fir potentially greater return on equity
  - During periods of low interest rates, the opportunity cost is justified since the cost of borrowing is low

- **Disadvantages**
  - Regular (monthly) interest payments are required
  - Continual cash-flow problems can be intensified because of payback responsibility
  - Heavy use of debt can inhibit growth and development (bankruptcy)

Raising Capital - Equity Financing

- **Equity Financing**
  - Does not require collateral
  - Offers investors some form of ownership position in the venture

- Entrepreneurs should consider :
  - Availability of funds
  - The assets of the venture
  - Prevailing interest rates