Detailed Functional Planning for the Venture

The creation of a plan for marketing and selling a product is based on clearly describing the target customer and how the product will be priced, communicated, delivered, and supported. An organizational plan that supports a collaborative, performance-based culture and a sound compensation scheme must be created to attract good talent. The acquisition of resources and capabilities and facilities will be planned for and initiated in order to build momentum for the venture. The management of operations, processes, and manufacturing will be described in an operations plan. A plan for outsourcing some activities and acquiring necessary assets and technologies will facilitate the early growth of the firm. Finally, the venture team will describe the potential for acquisitions, if any, and the plan for operating internationally in order to further stimulate growth.
CHAPTER 11

The Marketing and Sales Plan

Successful salesmanship is 90 percent preparation and 10 percent presentation.

Bertrand R. Canfield

What is the best way to attract, serve, and retain customers?

Marketing and sales are critical to the success of a new firm since the firm normally starts without any customers. A new business must create a marketing and sales plan, which describes its target customers for its product offering. A sound marketing plan is built on solid information obtained through market research. The new firm creates a product position and a mix of price, product, promotion, and distribution channels that will attract and satisfy the customer. Gaining recognition and acceptance in a target market requires the following steps in sequence:

- Describe the product offering
- Describe the target customer
- State the marketing objectives
- Gather information through market research
- Create a marketing plan
- Create a sales plan
- Build a marketing and sales staff
11.1 Marketing

Marketing is a set of activities with the objective of securing, serving, and retaining customers for the firm’s product offerings. Marketing is getting the right message to the right customer segment via the appropriate media and methods. It is the task of the marketing function to help create the product and the terms of its offering as well as communicate its value to the customers. Ideally, marketing “merges the minds” of customers and product developers, facilitating the identification of unspoken but important needs [Lassiter, 2002].

The purpose of the marketing plan is to describe the steps required to achieve the marketing objective. The marketing plan is a written document serving as a section of a new venture’s business plan and contains action steps for the marketing program for the products. Peter Drucker [2002] has said, “Because its purpose is to create a customer, the business has two basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs.”

In Chapter 3, we described the creation of a value proposition and business model for the identified customer. In Chapters 4 and 5, we described the elements of an overall business strategy and market analysis. Given these business elements, we need to develop a marketing strategy and build a marketing plan. The six elements of a marketing plan are shown in Table 11.1.

The first element of the marketing plan is a clear statement of objectives. The second element is the identification of one or more customer target segments. The goal of target segments is to carefully select the appropriate customers and to focus the marketing activities on those segments. The third element is the description of the product and the terms and conditions of its formal offering. Given our knowledge of the product and its offering, we need to determine what the response of the customer might be and how we can develop a strategy to attract and retain the customer. Next, we describe the marketing mix consisting of price, product, promotion, and place (channels). Finally, we describe plans for relating to our customer in the sales and service activities.

The marketing plan will be implemented through a marketing program. The plan will describe how we will take the product to market and attract, serve, and retain satisfied customers. The marketing and sales activity is portrayed in Figure 11.1. The new venture communicates information about its product and how it sells and services the product for the customer. When the

<table>
<thead>
<tr>
<th>TABLE 11.1</th>
<th>Six elements of the marketing plan.</th>
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<tbody>
<tr>
<td>■ Marketing objectives</td>
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<td>■ Target customer segments</td>
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<tr>
<td>■ Product offering description</td>
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<tr>
<td>■ Market research and strategy</td>
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<tr>
<td>■ Marketing mix</td>
<td></td>
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<tr>
<td>■ Customer relationship management</td>
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</table>
11.2 Marketing Objectives and Customer Target Segments

The **marketing objectives statement** is a clear description of the key objectives of the marketing program. Objectives may include sales goals, market share, profitability, regional plans, and customer acquisition goals. Objectives should be quantified and given for a time period, such as “the firm will sell 1,000 units in the initial sales phase in Texas and Oklahoma in the first year of activity.”

A clear understanding of who the customers are and why they will buy is critical. Selected markets or groups of customers are often called customer target segments. A **market segment** consists of a group with similar needs or wants who reference each other and may include geographical location, purchasing power, and buying attitudes. **Market segmentation** divides markets into segments that have different buying needs, wants, and habits. Different segments will require different marketing strategies. For example, a business based on Internet sales should know that different age groups, which are one type of segment, vary dramatically in their propensity to shop and in the amount they spend [Abate, 2008]. Often a new venture identifies one target segment for its initial marketing effort, carefully describing the customer in that segment in terms of geographic, demographic, psychographic, and other variables [Winer, 2000]. Geographic variables include city, region, and type, such as “urban.” Demographic variables include age, gender, income, education, religion, and social class. Psychographic variables include lifestyle and personality variables that influence a customer’s wants and needs. Good segmentations identify the groups most worth pursuing and they tell companies what products to sell to these groups. Good segmentations also change over time, along with customers [Yankelovich and Meer, 2006].

![FIGURE 11.1 Marketing and sales activity of the new venture.](image1)

![FIGURE 11.2 Building a marketing plan and a sales plan.](image2)
**CHAPTER 11 The Marketing and Sales Plan**

**InVision: The Right Product at the Right Time**

InVision Technologies designs and manufactures electronic baggage screening systems (see www.invision-tech.com). InVision Technologies was founded in 1990 to provide airport security devices by using computed tomography to detect explosives. Its target segment, U.S. airport baggage screening, was slow growing before the terrorist attacks on September 11, 2001. It sold 250 machines in the preceding decade but 750 machines in the two years following the attacks. InVision also planned to enter the international market. InVision’s success and expertise led to its acquisition by GE in 2004 for $900 million.

The target segment for Research In Motion’s Blackberry can be described as adults who need constant wireless connectivity while on the go. The target customer for the Blackberry is a professional who wants a pocket-size device that is effective at delivering enterprise applications including e-mail. With a clear description of the target customers, a new venture can devise a plan to attract and retain them. Marketing to a segment enables the new firm to narrow the marketing strategy and put all of its effort into acquiring new customers in the target market. Often, new firms reach for too many market segments in their early efforts, thus dissipating their resources before they can build up a customer base. Table 11.2 identifies four critical questions to ask about target markets.

**Redefining Flexcar’s Customer Segments**

Car sharing is aimed at people who want to use a car for a short time but do not need to own it. This scheme is particularly attractive in urban centers. In general, people are moving toward access rather than ownership of autos in dense urban areas with high auto costs. Neil Peterson started Flexcar in 1999 in Seattle and then expanded to Los Angeles, San Francisco, Washington, D.C., and San Diego.

As the venture grew, the average cost of owning or leasing a new car became $625 a month. The average member in a car-sharing program spent less than $100 a month on car expenses. Flexcar initially identified its target segment as individuals. It soon discovered, however, that the biggest growth came not from individuals but from small and midsize companies that did not want to maintain their own fleets of vehicles [Stringer, 2003]. In 2007, Flexcar merged with Zipcar (see www.zipcar.com).

It is wise to figure out who will be your best customer and then pursue that segment. A best customer is one who values your brand, buys it regularly whether your product is on sale or not, tells his or her friends about your product, and will not readily switch to a competitor. Entrepreneurs identify their customer segment and position their product to serve them very well [Ettenberg, 2002].
11.3 Product and Offering Description

The product’s features and primary attributes are typically described early in a business plan. If possible, a product positioning map should be developed. All products can be differentiated to some extent by communicating the most highly valuable benefit to the buyer. **Positioning** is the act of designing the product offering and image to occupy a distinctive place in the target customer’s mind [Ries and Trout, 2001].

### TABLE 11.2 Four crucial questions to ask about target markets.

- Is there a target market segment where the company can enter the market and provide clear customer benefits at a price the customer is willing to pay?
- Do customers perceive that these benefits are superior to other solutions/options?
- How large is the target market segment and how fast is it growing?
- Will entry into the target market segment serve as a springboard for entry into other segments?

*Source: Mullins, 2006.*

![Positioning map for personal computers showing the position of a new product, EasyPC.](image-url)
Positioning of a product enables the firm to differentiate it in the mind of the prospect. Volvo connotes safety, and FedEx owns “overnight.” A product positioning map shows the product characteristics in relation to its competitors. Figure 11.3 shows a hypothetical new personal computer called EasyPC that is positioned as having high ease of use and a high performance-to-price ratio. It would then be the task of the marketing effort to clearly communicate that position to the target customer.

Positioning a product focuses on a few key attributes of the value proposition. A positioning statement, as shown in Figure 11.4, helps to define the positioning of the product. Once we have a product position, we seek to build a powerful product offering [Moore, 2002]. A product offering communicates the key values of the product and describes the benefits to the customer. The unique selling proposition is a statement of the key customer benefit of a product that differentiates it from its competition. The unique selling proposition for the EasyPC could be:

EasyPC delivers high performance at a reasonable price and is easy for anyone to use.

The unique selling proposition of FedEx is:

We deliver your packages overnight—guaranteed.

FIGURE 11.4 (a) Positioning statement format, and (b) for Tesla Motors
11.4 Market Research and Customer Development

Market research is the process of gathering the information that serves as the basis for a sound marketing plan. Once a target market is selected, the entrepreneur needs some information about customers’ preferences and behavior as well as competitors’ products. The objective of market research is to learn how to attract and retain customers for a product. Market research can provide critical information to the new venture team. Without complete information, a new venture may launch a product only to ultimately determine that the customer does not value the product. A key question is: Does the target segment want the perceived value that our positioning is trying to deliver more than other segments? If so, how can we reach this segment efficiently?

The market research effort can consist of four steps, as shown in Table 11.3. Using these steps, entrepreneurs can develop an understanding of their customers, including their preferences and behavior. The first step is to determine the needed information and research objectives. Then, the new venture team develops a plan for gathering information from the targeted customer segment. It is helpful to use printed sources such as trade data, magazines, and trade journals. Corporate reports and news about the industry will be available. A search on the Internet will lead to many valuable sources. See appendix C for marketing research sources.

Primary data are collected for your specific research objective. Secondary data sources that were collected for another research purpose are already available. Primary data sources are very valuable, and entrepreneurs should avoid relying solely on secondary sources. Talking to the actual customer and other channel participants is very important. A popular form of research uses the focus group, which is a small group of people from the target market. These people are brought together in a room to have a discussion about the product. This discussion can be led by someone from the venture team or a professional moderator. Other methods of collecting data include surveys and observation of customers. The movie business uses free previews to test viewers’ reactions. The studio then uses that information to revise or take out scenes or characters or change the ending. Focus groups have limits since no potential customer ever asked for ATMs, traveler’s checks, or personal computers.

TABLE 11.3 Market research process.

1. Define the product and its unique selling proposition. Identify the customer segment. Develop a set of questions that will provide the necessary data on customer preferences and behavior.
2. Collect the data using surveys, published sources, focus groups, interviews, and other means.
3. Analyze and interpret the data to determine if the product meets the needs or wants of the customers and determine whether they will pay the selected price.
4. Draw conclusions about the customers and their needs, preferences, and behavior.
Many technology companies use the “a day in your life” format that takes customers through their day before and after the new product launch to expose the benefits of the new product.

Technology ventures are well served if they can identify and work with some key customers who are also innovators. These lead users are knowledgeable people who are willing to donate their time to work cooperatively with the new venture [Von Hippel, 2005].

Customer development is the process of the discovery, validation, and creation of customers leading to company building [Blank, 2006]. This model for the development of the sales and marketing plan runs in parallel with the product development process. It uses several iterations of each step to arrive at a successful plan and promotes continuous evaluation of who the customer is as shown in Figure 11.5.

An important use of market research is to estimate the **market potential** for maximum sales under expected conditions. Then the new venture team can estimate a realistic **sales forecast**. Market potential for a new product is often overestimated. For example, we might estimate that the potential market for the EasyPC is 10 million units per year, based on the sales of Dell and HP (see Figure 11.3). Then, an optimistic estimate of actual sales in the first year might be 1 million units. Clearly, that forecast is subject to many unstated assumptions—which may be in error. A sales forecast should be a realistic estimate of the amount of sales to be achieved under a set of assumed conditions within a specified period of time. Many sales forecasts are unrealistic. A sales forecast for a new venture needs to be conservatively developed within a statement of assumed conditions.

Being first, being best, and being correct may not matter as much as providing what the customer really wants right now. Finding out what the customer really wants is a very important and difficult task. Often people will not or cannot verbalize their true motivations and attitudes. In creating a marketing plan, the attitudes and preferences may not be clearly reported. One widely used method is **conjoint analysis**, which provides a quantitative measure of the relative importance of one attribute as opposed to another. In conjoint analysis, the respondent is asked to make trade-off adjustments and decisions. This method requires an investment of time and money in the research process but may be worth it to avoid misreading the customers’ preferences [Aaker et al., 2001].

**FIGURE 11.5** The customer development process.
11.5 Brand Equity

The new venture should have a competitive advantage such as low cost, quality, customer relationship, or performance advantage. Many new technology ventures differentiate themselves from competitors by doing a better job of convincing their customers that they have a better product characteristic, such as performance, reliability, or quality. A brand is a combination of name, sign, or symbol that identifies the goods sold by a firm. A brand accurately identifies the seller to the buyer. A **brand** is something that resides in the minds of consumers. Well-known brands include Intel, HP, and Dell. Brand equity is the brand assets linked to a brand’s name and symbol that add value to a product. **Brand equity** is the perceived worthiness of the brand in the mind of the customer and may be portrayed as the sum of four dimensions, as shown in Table 11.4 [Aaker and Joachimsthaler, 2000]. Brand awareness or familiarity is the first step in building a brand. The perceived quality of the product and respect for the product will help build brand equity. The quality of the product and its perceived vitality will build an image of the brand. A brand association is how the customer relates to the brand through personal and emotional associations. This dimension is present in the emotional relationship that Harley-Davidson owners have with the motorcycle brand. In other words, brand loyalty responds to promises kept by the seller. Technology firms with significant brand equity include eBay, GE, Genentech, Intel, Microsoft, and Nokia.

A brand’s promise of value is the core element of differentiation. This promise of value is tied to the customer, and loyalty will follow from good customer experiences. Many customers are willing to pay more for some badge of identification—Apple’s rainbow-colored logo, for example—that makes them feel they are part of a community. A strong corporate brand lets customers know what they can expect of the whole range of products that a company produces. The most successful corporate brands are universal and facilitate differences of interpretation that appeal to different groups. This is particularly true of corporate brands whose symbolism is strong enough to allow people across cultures to share symbols even when they don’t share the same meaning.

The brand of a company is customer centered and focuses on the product or service offered. By contrast, the reputation of a company focuses on the credibility and respect among a broad set of constituencies such as suppliers, regulators, employees, the media, and the local communities. Brand equity depends on the delivery of a good product to customers. Reputation depends

<table>
<thead>
<tr>
<th>TABLE 11.4 Four dimensions of brand equity.</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ Brand awareness or familiarity</td>
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<tr>
<td>■ Perceived quality and vitality of the product</td>
</tr>
<tr>
<td>■ Brand associations: connects the customer to the brand</td>
</tr>
<tr>
<td>■ Brand loyalty: a bond or tie to the product</td>
</tr>
</tbody>
</table>
on the goodwill of the communities and stakeholders it interacts with [Etten-son and Knowles, 2008]. Both brand equity and reputation are important to a venture’s success.

Some brands, such as Nike, Harley-Davidson, and BMW, become icons [Holt, 2003]. A brand becomes an icon when it offers a compelling story that can help people resolve tensions in their lives. One of the most potent stories is the depiction of a group of rebels. For example, Nike appeals to rebel youth who want to stand out as different from the crowd.

One approach to building a brand is to identify the differentiating benefit that is important to the target customers and describe the attributes that imply this benefit. Intel identifies superior quality as its benefit. Successive marketing campaigns have informed consumers that Intel integrated circuits have reliable high performance and are leading-edge products promising superior quality and performance.

### 11.6 Marketing Mix

The four elements of the marketing mix are shown in Table 11.5. The **product** is the item or service that serves the needs of the customer. The marketing plan describes the key methods of differentiating the product. Coca-Cola, for example, differentiates regular Coke by using a distinctive trademarked bottle with ribbing. Some auto companies use their warranty to distinguish their product. Nordstrom distinguishes its products by quality and its liberal return policy. Kodak’s EasyShare digital camera is distinguished by its ease of use. Intel’s Pentium chip is distinguished by its high-speed performance.

**Pricing policies** can be used to distinguish a firm’s offering. Warren Buffet said it clearly, “Price is what you pay, value is what you get.” For example, Amazon.com offers 30 percent off most books’ list prices and free shipping for orders over $25. Price is a flexible element, and various discounts, coupons, and payment periods can be tested in test markets. The price can be initially

<table>
<thead>
<tr>
<th>Product</th>
<th>Price</th>
<th>Promotion</th>
<th>Place</th>
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<tbody>
<tr>
<td>Product variety</td>
<td>List price</td>
<td>Public relations</td>
<td>Channels</td>
</tr>
<tr>
<td>Quality</td>
<td>Discounts</td>
<td>Advertising</td>
<td>Locations</td>
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<tr>
<td>Design</td>
<td>Credit terms</td>
<td>Sales force</td>
<td>Inventory</td>
</tr>
<tr>
<td>Features</td>
<td>Payment period</td>
<td>Direct messages</td>
<td>Fulfillment</td>
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<tr>
<td>Brand name</td>
<td></td>
<td></td>
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<tr>
<td>Packaging</td>
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<tr>
<td>Warranties</td>
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<tr>
<td>Returns policy</td>
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set by estimating demand, costs, competitors’ prices, and a pricing method to select the price. Effective pricing requires gathering and integrating information about the firm’s strategic goals and cost structure, the customer preferences and needs, and the competition’s pricing and strategic intent [Nagle and Hogan, 2006]. The pricing method or strategy can seek market share, premium pricing, or maximum profit. The cost to make the product is a floor under the price, and an estimate of the total value to the customer sets a ceiling on the price (see Figure 3.5). After studying competitors’ prices, the new venture can test a price on a set of test customers.

Consider the setting of a price for a textbook where the total market demand is 10,000 books per year. Competitors have established a retail price in the range $60 to $80, and the demand per year for a new textbook may be described by

$$D = 10,000 - kP$$

(11.1)

where $D$ = demand in units, $k$ = estimated sensitivity constant, and $P$ = price in dollars. The fixed cost to produce the new book is $30,000, and the variable cost is $10 per unit. The book is differentiated from its competition by quality and clarity. What price, $P$, would you select within the established range of $60 to $80? To maximize market penetration, one would select the lowest price, $P = 60$, since this will result in the largest demand. If market research shows that the market is price-sensitive and $k = 90$, then when the price is set at $60, the demand is for 4,600 units. Then the gross profit = (revenues − cost of goods) is

$$GP = R - (VC \times D) = (D \times P) - (VC \times D) = (P - VC)D$$

(11.2)

where $R$ = revenues and $VC = $variable cost. When $P = 60$ and $k = 90$, the gross profit is $276,000. As shown in Table 11.6, if you raise the price to $70, the gross profit declines. The calculation of the best price to obtain the maximum gross profit depends on the estimated sensitivity constant. If we change our assumptions so that $k = 80$, then we obtain the gross profit for the book as shown in Table 11.6. Note that $70 would be the price to maximize profit when $k = 80$. Note that $k$ is an estimate obtained through experience and research and will change over time.

**TABLE 11.6** Gross profit for selected values of the sensitivity constant, $k$, and the price of the new book (gross profit in thousands).

<table>
<thead>
<tr>
<th>Sensitivity constant, k</th>
<th>Price</th>
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<td></td>
<td>$60</td>
<td>$70</td>
<td>$80</td>
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<td>90</td>
<td>$276</td>
<td>$259</td>
<td>$166</td>
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<tr>
<td>80</td>
<td>$230</td>
<td>$234</td>
<td>$222</td>
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</table>
In many industries, customers demand low prices, and the competitors have little pricing power. Pricing power accrues to companies without wide competition, such as universities that raise tuition, hospitals that increase fees, or virtual monopolies such as cable-television operators. Most mature companies operate in a world of flat or falling prices due to an excess number of providers. A new venture can pick its pricing strategy from the three shown in Figure 11.6. Many new ventures use value pricing since demand will be sensitive to price and the new firms possess little brand equity. Demand-oriented approaches look at the demand for the product at various price levels and try to estimate a price that will provide a good market share and profitability for the long term. Many technology ventures with a new breakthrough product will use a premium pricing strategy.

New technology companies usually offer new, value-oriented products. A new product or service is, by its unknown nature, difficult to price. Many new products are characterized by quality and performance uncertainty. To attract customers to a new product, it may be useful to offer a warranty—a contract or guarantee of a specified performance. Another possibility is to offer quality-contingent pricing that specifies a price rebate for poor performance [Bhargava, 2003].

Since customers often use price as a signal of quality when they are unfamiliar with a product, companies should be careful not to underprice offerings [Marn et al., 2004].

Using a traditional model for growth, firms can take advantage of the demand for new goods and services by creating and marketing products that

![Figure 11.6 Three pricing methods.](image-url)
satisfy a demonstrated need in the marketplace. As their customer bases grow and the products become more and more popular, profits begin to emerge. The profits are then reinvested in projects that will provide new sources of revenue and income. A portion of the profits is retained to build brand value, which can be created through a variety of techniques, not the least of which is aggressive pricing, savvy promotion, and advertising.

Promotion includes public relations, advertising, and sales methods. Selecting the message for advertising and the media for transmitting the message is a complex activity. Advertising is the art of delivering a sales proposition and positioning the product uniquely in the customer’s mind [Roman, 2003]. The initial product message is used to attract customers to the new venture. Advertising can use print, radio, television, or the Internet. Charles Revson, co-founder of Revlon, once said: “In our factory, we make lipstick. In our advertising, we sell hope.” Many products sell hope. All the purveyors of weight-control products sell hope. Matchmakers and dating services also sell hope. By contrast, Microsoft and Intel sell reliable performance. Advertising can enhance brand name recognition, create value, and enhance return for a new technology venture [Ho et al., 2005].

A list of marketing media is given in Table 11.7. Sending direct messages via mail or telemarketing can be a useful method. Public relations normally takes the form of an article in the print media or an interview on radio or television that delivers the product message. Many firms find the use of a sales force necessary to carry their message to the customer. Social networks have become important as Facebook and MySpace together attracted more users than the population of the United States [Hayes and Malone, 2008]. Word-of-mouth (buzz) promotion is particularly important for movies, toys, recreational activities, and restaurants. The buzz around the Harry Potter books and movies was large. Other products such as pharmaceuticals also can generate a lot of buzz [Dye, 2000]. Products that merit a buzz campaign have some unique, attractive attribute, such as the BMW’s Mini Cooper or a new anticancer drug. Furthermore, they should be highly visible. The latest fashion in clothes or accessories often runs on buzz with teenage girls.

Word-of-mouth marketing is often called viral marketing. The concept is based on an age-old phenomenon: people will tell others about things that interest them. The Internet is an important avenue for finding passionate tastemakers who will carry a message forward. They have their own networks, primarily reached through e-mail lists, blogs, and social networking sites. As consumers increasingly use digital video recorders to skip commercials, listen to podcasts and downloaded music instead of radio, and use e-mail filters, word-of-mouth promotion will become more important.

The Tesla Roadster is a high-performance sports automobile with a retail price of over $100,000. It is a fully electric vehicle that can travel over 200 miles per charge. Tesla generated buzz around its product by getting celebrities and technology pioneers excited about it. At one point, the waiting list was over 1,000 people including Google’s cofounder and Governor Arnold Schwarzenegger.

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<th>TABLE 11.7 Marketing media.</th>
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<td>Radio and podcasts</td>
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<td>Newspapers</td>
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<td>Magazines</td>
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<td>Television and video</td>
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<td>e-mail</td>
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<td>Websites</td>
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<td>Social networks</td>
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<tr>
<td>Blogs and wikis</td>
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<td>Presentations and speeches</td>
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of California. Journalists spread photos of celebrities driving the vehicle throughout traditional and popular Internet media outlets. Despite the $5,000 deposit required to be placed on a waiting list, this “buzz” has helped Tesla Motors experience tremendous interest in this car.

Place means selecting the channels for distribution of your product and, when appropriate, the physical location of your stores. Channels of distribution are necessary to bring your product to the end user. A publisher sells a book through multiple channels such as bookstores, direct sales to the end user, and Internet bookstores, such as BarnesandNoble.com. Each industry has a some sort of distribution system. Differential advantages can accrue to sellers who creatively use different channels.

In the personal computer industry, Dell Computer sells direct to the end user via phone or the Internet, while Hewlett-Packard sells primarily via retail stores and value-added resellers. When several parallel channels are used, channel conflict can occur due to the divergence of goals between channels and domain (territory or customer) disagreements.

Many technology ventures will sell their product to other manufacturers who will incorporate the product as a module or component within the final product. For example, Intel provides microprocessors that Dell incorporates within its PC.

The use of the Internet as a distribution channel will cause a shift in the relationships between consumers, retailers, distributors, manufacturers, and service providers. It presents many companies with the option of reducing or eliminating the role of intermediaries and lets those providers transact directly with their customers. Before launching an e-commerce effort and bypassing its traditional distribution channels, however, a business should analyze which products are appropriate for electronic distribution. Those most appropriate are digital, such as information products.

“Intel Inside” Campaign

In the late 1980s, Intel decided to redirect some of its advertising efforts away from computer manufacturers to actual computer buyers. The consumer’s choice of a personal computer was based almost exclusively on the brand image of the manufacturer, such as HP, Dell, and IBM. Consumers did not think about the components inside the computer. By shifting its advertising focus to the consumers, Intel created brand awareness for itself and its products, and built brand preference for the microprocessor inside the PC.

The first step was to create a new advertisement using the slogan “Intel: The Computer Inside.” Second, Intel chose a logo to place on a computer—a swirl with “Intel Inside.” Then it chose a name for its new microprocessor—Pentium. As a result, Intel became a leader in the PC boom of the 1990s. Intel was successful at branding a component.
Many firms are using the Internet for selling and experimentation. Procter & Gamble (see www.pg.com) is using its corporate website to invite online customers to sample and give feedback on new prototype products [Gaffney, 2001]. This approach permits P&G to test new products and their marketing mix. P&G conducts at least 40 percent of its tests online. In August 2000, when P&G was ready to launch Crest Whitestrips, a home tooth-bleaching kit, it tested its proposed price of $44. P&G ran TV and magazine ads to attract people to the test. It also sent e-mails to people who had signed up to sample new products. In the first eight months, it sold 144,000 whitening kits online.

Microsoft, Yahoo, and Google have emerged as key online advertising platforms [Vogelstein, 2005]. Internet advertising is displacing newspaper and magazines. Google and others place an advertisement in front of users when they are looking to buy or research an item online.

An emerging firm has to decide how and where to spend its marketing dollars. It may have several product categories and numerous regions on which to spend its limited marketing budget. An emerging firm should collect information on each regional or international market and allocate its resources based on the regions and products that offer the best opportunity for profit [Corstjens and Merrihue, 2003].

11.7 Customer Relationship Management

The quality of the relationship that a firm has with its customers directly influences the intrinsic value of the firm. Customer relationship management (CRM) is a set of conversations with the customer. These conversations consist of (1) economic exchanges, (2) the product offering that is the subject of the exchange, (3) the space in which the exchange takes place, and (4) the context of the exchange [McKenzie, 2001]. For the customer relationship to be fruitful, the attraction of the customer, the conversion or sale of the customer, and the customer retention process must all be managed well. These relationships are managed through conversations in real time—that is, without delays. The firm and the customer usually engage in a series of brief conversations that help build a relationship. The conversations take place between the customer and the firm in a relationship space, as shown in Figure 11.7. The first part of a conversation is the economic exchange based on a product offering that is communicated to the customer. The space in which the exchange takes place could be physical, such as a grocery store or furniture showroom, or a website displaying goods (e.g., Amazon.com). The context of the exchange includes all that is known about the customer and the situation with the customer.

A necessary step to a CRM system is the construction of a customer database. This is relatively easy for banks and retail firms since they have a high frequency of direct customer interaction. It is more difficult for firms that do not interact directly with the end customer, such as semiconductor and auto manufacturers [Winer, 2001]. The customer database can be used for CRM
CHAPTER 11  The Marketing and Sales Plan

activities such as customer service, loyalty programs, rewards programs, community building, and customization.

CRM, when properly constructed, allows firms to gather customer data quickly, identify valuable customers, and increase loyalty by providing excellent service. Through the CRM process, customers become a new source of competencies engaged in building the firm’s products and services as they provide ideas via the conversational process [Prahalad and Ramaswamy, 2000]. Unfortunately, too many companies distance themselves from customers by using phone loops that trap and frustrate customers seeking aid.

CRM is best operated when the customer and the CRM employee are fully engaged in conversation. A process that fully engages the customer and the employee can deliver more effective outcomes for the firm and the customer [Fleming et al., 2005].

Progressive Corporation uses CRM to relate to its customers 24 hours a day. It sells auto insurance both directly and through agents. Progressive’s information systems allow customers to manage their accounts online, including paying their bills electronically and adding a vehicle or driver. It has a highly functional website, telephone call centers, and claims service available 24 hours a day, seven days a week. Progressive’s claims agents travel quickly to the scene of an accident. The agents are equipped with notebook computers that communicate wirelessly to the corporate network, which lets them key in information on site.

The CRM and the total marketing effort are depicted in Figure 11.8. CRM helps improve marketing research, customer retention, and the marketing mix.

Customers who say they are satisfied are not necessarily repeat customers because satisfaction is a measure of what people say, whereas loyalty is a measure of what they actually do. Customer surveys measure opinions but are unreliable predictors of future behavior. Loyalty is not a matter of opinion [Klein, 2003]. Loyalty is a measure of a customer’s commitment to a product or a company’s product line. Loyalty measurements are more difficult to obtain than satisfaction measures. Good satisfaction measurement can help identify what’s

FIGURE 11.7 Customer-firm relationship as a conversation.
Customer Relationship Management

broken in your business today. Good loyalty measurement is a forward-looking tool that firms can use to devise strategies to hold on to customers they want to keep.

FIGURE 11.8 CRM and the total marketing effort.

CRM tools can be used to collect and organize the activities involving a firm’s customers. For example, FrontRange (www.frontrange.com) enables a firm to track current or potential customers and provide service, sales, and support management. Another leading CRM provider is salesforce.com.

Customization, sometimes called one-to-one marketing, is a process that enables a product to be customized (changed) to a single customer’s specifications. A firm uses a CRM system to elicit the information from each customer specific to his or her needs and preferences. Customization allows the company and the customer to learn together about the customer’s needs. Dell Computer popularized the concept with its build-to-order website. Other companies such as Levi Strauss and Nike have developed processes and systems for creating customized products according to customers’ tastes. For a good
example of customization, see Dell Computer at www.dell.com. Customization is easy to do with digital goods such as music files, but other manufacturers can also tailor products to provide customization [Winer, 2001].

11.8 Diffusion of Technology and Innovations

Most entrepreneurial ventures have some novelty or innovation embedded in their product. Customers will adopt one innovation earlier than others based on their perception of its advantages and its risks. The diffusion of innovations describes the process of how innovations spread through a population of potential adopters. An innovation can be a product, a process, or an idea that is perceived as new by those who might adopt it. Innovations present the potential adopters with a new alternative for solving their problem, but they also present more uncertainty about whether that alternative is better or worse than the old way of doing things. The primary objectives of diffusion theory are to understand and predict the rate of diffusion of an innovation and the pattern of that diffusion. Innovations do not always spread quickly. The best ideas are not always quickly adopted. The British Navy first learned in 1601 that scurvy, a disease that killed more sailors than warfare, accidents, and all other causes of death, could be avoided. The solution was simple (incorporating citrus fruits in a sailor’s diet), and the benefits were clear (scurvy onboard was eradicated), yet the British Navy did not adopt this innovation until 1795, almost 200 years later [Rogers, 2003].

The diffusion of innovations depends on a potential adopter’s perception of five characteristics of an innovation, as listed in Table 11.8. The adopter’s perceptions of these characteristics strongly influence his or her decision to adopt or not. Consider the introduction of black-and-white television in 1947. By 1950, 10 percent of all households had adopted this innovation, and by 1960, 90 percent of households had a TV. This rapid adoption of TV was due to its relative advantage compared to radio, its high compatibility within the home,

<table>
<thead>
<tr>
<th>TABLE 11.8 Five characteristics of an innovation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ Relative advantage: the perceived superiority of an innovation over the current product or solution it would replace. This advantage can take the form of economic benefits to the adopter or better performance.</td>
</tr>
<tr>
<td>■ Compatibility: the perceived fit of an innovation with a potential adopter’s existing values, know-how, experiences, and practices.</td>
</tr>
<tr>
<td>■ Complexity: the extent to which an innovation is perceived to be difficult to understand or use. The higher the degree of perceived complexity, the slower the rate of adoption.</td>
</tr>
<tr>
<td>■ Trialability: the extent to which a potential adopter can experience or experiment with the innovation before adopting it. The greater the trialability, the higher the rate of adoption.</td>
</tr>
<tr>
<td>■ Observability: the extent to which the adoption and benefits of an innovation are visible to others within the population of potential adopters. The greater the visibility, the higher the rate of adoption by those who follow.</td>
</tr>
</tbody>
</table>
its relatively low complexity, its easy trialability, and its ready observability in TV store windows and friends’ homes. On the other hand, consider the slow adoption of the personal computer in the home. PCs were introduced into the home market by 1982, but by 2007, only two-thirds of households had a PC. The high complexity of a PC discourages many consumers from adopting it in the home. Also, the perceived advantage is not clear to many would-be users.

As the PC example highlights, to understand a customer’s likelihood of adoption, it is necessary to compare his or her current “pain” to the perceived pain of the solution presented by your company’s product or service. For example, without a PC and word processor, a potential customer feels pain when typing documents that cannot be easily changed and when tracking expenses by hand rather than by using a spreadsheet. But, adoption of a PC also imposes its own perceived pain. This perceived pain is not only price, but also time and effort required to read instruction manuals, research products, wait in line, install software, and so on. Customers will adopt only when their perceived benefit exceeds this perceived pain [Coburn, 2006].

In a rapidly changing technology area, customers may wait to adopt if they think that a better technology is just around the corner. For example, many people did not purchase Sony’s MiniDisc recorders because they suspected that CD recorders would be available soon. If customers wait long enough, they can “leapfrog” entire technologies, as with communities in Africa and Asia that skipped landlines and adopted mobile phones [Economist, 2006].

The adoption of any innovation usually follows an S curve, as shown in Figure 11.9. When the adoption follows the S curve, then the distribution curve of adopters follows a normal distribution, as shown in Figure 11.10, where $S_d = \text{standard deviation}$. The five categories of adopters are shown in Figure 11.10 and described in Table 11.9 [Rogers, 1995].

![Cumulative percent of adoption over time](image-url)
CHAPTER 11 The Marketing and Sales Plan

FIGURE 11.10 Innovation adoption categories when $S_d = \text{standard deviation}$.  

TABLE 11.9 Five categories of adopters of an innovation.  

- **Innovators** want to be on the leading edge of business and are eager to try new innovations. They have an ability to work with complex and often underdeveloped ideas as well as substantial financial resources to help them absorb the uncertainties and potential losses from innovations.  
- **Early adopters** are more integrated with potential adopters than innovators and often have the greatest degree of opinion leadership, providing other potential adopters with information and advice about an innovation. They are visionaries.  
- The **early majority** adopts just ahead of the average of the population. It typically undertakes deliberate and, at times, lengthy decision-making. Because of its size and connectedness with the rest of the potential adopters, it links the early adopters with the bulk of the population, and their adoption signals the phase of rapid diffusion through the population. They are pragmatic.  
- The **late majority** is described as adopting innovations because of economic necessity and pressure from peers. While it makes up as large a portion of the overall population as the early majority, it tends to have fewer resources and be more conservative, requiring more evidence of the value of an innovation before adopting it.  
- **Laggards** are the last to adopt a new innovation. They tend to be relatively isolated from the rest of the adopters and focus on past experiences and traditions. They are the most skeptical when it comes to risking their limited resources on an innovation.  

11.9 Crossing the Chasm  
The transition from the early adopters to the early majority is difficult since it requires attracting pragmatists, as shown in Figure 11.11. This large gap between visionaries and pragmatists is called a **chasm** [Moore, 2000]. The early adopters or visionaries are independent, motivated by opportunities, and quickly appreciate the nature of benefits of an innovation. However, the early majority or pragmatists are analytical, conformist, and demand proven results.
from an innovation. Once a product crosses the chasm, others will purchase it since they will readily observe and try it [Rohlfs, 2001]. Crossing the chasm is a challenging task for a new business. An example of an innovation first available in the 1960s is the videophone. Another example is three-dimensional movies that first launched in 1953. The inconveniences involved in 3-D movies have outweighed the benefits, and the adoption of 3-D stalled in the 1990s [Huntington, 2003]. These innovations have not yet made it across the chasm.

In 1513, Machiavelli wrote in *The Prince* about change and disruption:

> There is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle than to initiate a new order of things. For the reformer has enemies in all who profit by the old order, and only lukewarm defenders in all those who profit by the new order. This lukewarmness arises partly from the incredulity of mankind, who do not truly believe in anything new until they have actual experience of it.

Hybrid cars were introduced in U.S. markets in 2001. They were rapidly accepted by enthusiasts and visionaries. Currently hybrid model cars have been increasingly popular and have crossed the chasm into the mainstream of auto sales.

Digital photography stalled at the chasm for over a decade (1985–1995). Factors that held it were the lack of personal computers and software that could easily manipulate digital images, as well as the absence of inexpensive printers for printing photos [Ryans et al., 2000].

Many high-technology products are weak on both compatibility and complexity. They are difficult to know how to operate and understand. Thus, they require the would-be user to learn how to use them and how they work. The firm offering these products needs to educate the user on both these matters. In some cases, this education effort can be expensive and time-consuming.

All innovators are not educators; however, anyone who adopts an innovation has to be a learner. Even the most transparent and intuitive designs present
learning challenges. A bicycle looks easy to ride. But for most adults, learning to ride a bicycle is difficult because they may have to fall down before they learn how. Teaching an adult to ride a bicycle is often an exercise in frustration. Too many innovators rely not on sound training sessions and documentation to support their users’ learning, but rather on Web pages that list frequently asked questions. Encouraging users to read the directions just doesn’t work. Innovators often try to transfer the costs of teaching and learning to their customers. As a result, adoption of an innovation is delayed or halted.

Innovators with good ideas have no choice but to be educators, through either the medium of their innovations or teaching. They should recognize that if they really want to overcome customer resistance, they need to balance ease of use with ease of learning [Schrage, 2002].

The chasm model and the diffusion characteristics of a product help to explain the **diffusion period** required to move from 10 percent to 90 percent of the potential adopters. Table 11.10 shows the diffusion period for selected innovations.

Early on, some suggested that it could take a decade or more for the DVD format to be adopted. By 2003, purchases of DVD players and discs had doubled over the previous year. DVD sales rapidly overcame two potential hurdles: (1) the higher purchase price of DVD discs compared to VCR tapes and (2) the inability of the DVD player to record. Currently, video-on-demand delivered over broadband cable or satellite TV poses a challenge to continued growth in the DVD and Blu-ray market.

Many innovators face a chicken-and-egg problem since to use a new device, the user needs a widely available infrastructure. However, it doesn’t pay others to build an infrastructure for just a few users. This is true for the world of wireless Web devices. Another example is the push for fuel-cell vehicles. Their use requires hydrogen fuel stations, but who will build them until

<table>
<thead>
<tr>
<th>Innovation</th>
<th>Diffusion period (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric power</td>
<td>40</td>
</tr>
<tr>
<td>Telephone</td>
<td>70</td>
</tr>
<tr>
<td>AM radio</td>
<td>20</td>
</tr>
<tr>
<td>Automobile</td>
<td>60</td>
</tr>
<tr>
<td>Black-and-white television</td>
<td>12</td>
</tr>
<tr>
<td>Color television</td>
<td>16</td>
</tr>
<tr>
<td>Videocassette recorder</td>
<td>17</td>
</tr>
<tr>
<td>Artery stents (for relief of heart congestion)</td>
<td>8</td>
</tr>
</tbody>
</table>

*Note: Diffusion period is the time required to diffuse an innovation from 10 percent to 90 percent of the potential adopters.*
many fuel-cell vehicles will use them? It can be difficult to get some customers to adapt innovations because markets are taking on the characteristics of networks. The interconnections among today’s companies are so plentiful that often a new product’s adoption by one player depends on its systematic adoption by other players [Chakravorti, 2004].

Some products spread like an epidemic once they reach critical mass. The emergence of fashion trends or best-selling books can be described in terms of a virus outbreak. These epidemics have three characteristics: contagiousness; little causes have big effects; and a big change happens, not gradually, but at one moment [Gladwell, 2000]. A tipping point is the moment of critical mass or threshold that results in a jump in adoption. This type of jump happens in networks where, at some point, enough people have the product that its value jumps significantly and the product takes off. The low-priced fax was introduced in 1984, and by late 1987, about two million fax machines were in use—enough to make it worthwhile to get one. As a result, 1988 was the tipping point.

An epidemic is spread by a message that is meaningful and emotional to the receiver and motivates the buyer who finds the message sticks in his or her mind and passes it on to others. The persuasive message is communicated by a trusted agent, and it moves the buyer to act. A tipping point can occur as a result of viral marketing. A contagious message that is memorable, motivating, and delivered by a trusted agent can take a product across the chasm by helping a product reach its tipping point.

Twitter: Reaching for the Tipping Point

Tipping points are especially evident in social networking applications. Twitter, which is a microblogging website and mobile application, experienced explosive growth in 2009. Its user base grew to over 18 million US adults who accessed Twitter on any platform, which was a 200% increase over 2008. Awareness of the site was largely spread by trusted agents with a contagious message. For example, many New York Times columnists began to publish on Twitter, and some of their readers were enticed to join as well.

The entrepreneur is the agent who creates the vision for the new product and builds a marketing plan that will help potential adopters to understand and value the innovation and respond to the message communicated by the firm. This message must be persuasive, believable, and understandable. New ventures create the resources and necessary strategy to overcome the potential adopters’ lack of knowledge and understanding of the product. They are more likely to receive funds from investors and succeed in bringing their product across the chasm and to the remaining adoption categories.

Marketing can be described as taking the actions necessary to create, grow, and maintain your firm’s place in your chosen market. To cross the chasm, the marketing strategy has to attract and retain pragmatists. They care
about quality, service, ease of use, reliability, and the infrastructure of complementary products (often called the whole product).

To get across the chasm, new ventures must determine the characteristics of the pragmatist customers and build a marketing plan for them. For a small start-up, this may mean focusing on a particular market segment or acting locally and then expanding as sales grow. Crossing a chasm means assembling the whole product, through alliances with partners, to satisfy the pragmatic buyer in a specific target market [Moore, 2002].

Although crossing the chasm is often associated with disruptive technologies for industrial markets, it may also apply to consumer markets with “disruptive” business models. A new venture must cross a monetization chasm instead of an adoption one by focusing on viral marketing and volume operations.

11.10 Personal Selling and the Sales Force

All businesses involve selling, which is the transfer of products from one person or entity to another through an exchange mechanism. It includes identifying customer needs and matching the product or solution to those needs. For many technology ventures, this process is called sales and business development. Most firms employ a sales force to make the contacts with the purchaser. New ventures should develop a selling strategy and a plan of action. Then they locate target customers and recruit, train, motivate, compensate, and organize a field sales force. They also have to manage the interactions between customers and salespeople. This dialogue is influenced by the buyer’s needs and the salesperson’s skills. The results of successful salesperson-customer interactions are orders, profits, and repeat customers. The salesperson implements the marketing strategy. In a small start-up, the salespeople may have other roles, such as product development or market planning.

Selling a technology product is difficult since the product is less tangible than a house or a suit. Buying a technology product takes longer and the salesperson must inspire a buyer to take action. The technology sales person must fully understand the product offering and be able to communicate its benefits clearly.

Especially in industrial markets where the customers are other businesses, the buyers may actually be multiple decision-makers. The ultimate user of the technology product or service is certainly one of them. However, others could include those who make the recommendation of which solution to buy such as the information technology staff and those who actually negotiate the contract such as the purchasing agent. This can complicate and delay the sale. This length of time from the first contact until a sales transaction is completed is called the sales cycle. It can be as short as one day (e.g., purchasing ad listings on Google or auction listings on eBay) or many months (e.g., evaluating and choosing sophisticated MRI equipment for a hospital’s radiology lab). Technology ventures must estimate the length of their sales cycle as they develop their business model and financial plan.
IBM’s success from 1955 to 1990 was due to a very knowledgeable, well-trained, and highly motivated sales force. IBM’s salespeople had real experience with computers as well as understanding of their clients’ needs. Thomas Watson, Sr., former CEO of IBM, noted that great technological innovation combined with a powerful sales force was unbeatable.

For a new technology venture with an innovative product, the salesperson must fully understand the product and the idea of creating a solution for the customer. It is the responsibility of everyone in a new venture to (1) identify and create a purchaser, (2) offer a creative solution, and (3) make a profitable sale. In many start-ups, the staff is comfortable with steps 1 and 2 but shies away from step 3. Without actually making the sale, the start-up is destined to fail [Bosworth, 1995]. The goal is to determine the purchaser’s needs, or latent pain, create a solution to meet that need, and then sell it to the purchaser.

The solution sales process is shown in Figure 11.12. The salesperson identifies the target market and makes contact with a potential purchaser. Then the salesperson determines the customer’s problem and needs. Based on these needs, the solution to the customer’s problem is created and presented. The benefits of the solution must be clearly communicated. Then the salesperson asks for the order and, with a positive response from the customer, confirms the order. You may have experienced this process when shopping for new clothes. The salesperson makes a contact and determines your needs. Then the salesperson shows you one or more solutions (options), and you try them on for size and appearance. The salesperson aligns his or her comments on each solution in a discussion with you. When you both see a solution, the salesperson asks for the order. If you agree, the salesperson writes the order at the cash register. This process is the same, although more complex, for a purchaser seeking a new computer system for a government agency or an electronics firm. Salespeople sell themselves, show they care, and provide proof of product, consistency of message, authority, and scarcity. The sales process rests, in part, on the skills of persuasion, as later described in Section 13.2.

New ventures often use their own people to manage the sales process but engage others, called sales representatives, under contract, to actually sell the product. The advantages and disadvantages of using company salespeople versus independent representatives are shown in Table 11.11. The choice of the right balance of company salespeople and independent representatives is a critical issue for a new business.

It is also important to grow the sales force at the right pace. Often, companies beef up their sales force capacity too early, when new products are not quite ready. A better approach is to start with a small group of salespeople who learn as much as they can about customers’ responses to your product. Then, use these responses to refine the product and the sales/marketing strategy, and expand the sales force only as sales themselves accelerate [Leslie and Holloway, 2006]. A new venture needs to focus on its customer rather than product features. The sales force needs to find out what the customer needs, which will
be a combination of products, services, and the product elements. They should provide a solution to the customer needs [Charan, 2007].

The emerging technology business may initially use a focused, direct sales force to create demand and penetrate to the primary target segment. Then, as growth accelerates, a transition to other segments and sales channels may be appropriate. It is important to clearly identify the primary target segment and key customers [Waaser et al., 2004].

New businesses encounter sales resistance due to competition and lack of knowledge of their product and its quality. One method to overcome this is to utilize trial periods, warranties, and service contracts. Many new ventures do an excellent job of building a good product and developing a solid marketing plan but then fail to make the forecasted sales.

We will cover the issues of international marketing and sales in Chapter 15.

### TABLE 11.11 Selling via company salespeople versus independent representatives.

<table>
<thead>
<tr>
<th></th>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>Company salespeople</td>
<td>Know your product well</td>
<td>High fixed cost</td>
</tr>
<tr>
<td></td>
<td>Relatively easy to manage</td>
<td>Low geographical dispersion</td>
</tr>
<tr>
<td></td>
<td>Provide feedback from customers</td>
<td>Time and costs to hire and train</td>
</tr>
<tr>
<td></td>
<td>Paid salary plus commission</td>
<td>Travel costs</td>
</tr>
<tr>
<td>Independent representatives</td>
<td>Paid on commissions</td>
<td>Sell for several firms, making it difficult to get their attention</td>
</tr>
<tr>
<td></td>
<td>Lower hiring and training costs</td>
<td>Difficult to manage</td>
</tr>
<tr>
<td></td>
<td>Geographical dispersion</td>
<td>Low feedback from customers</td>
</tr>
<tr>
<td></td>
<td>Have established relationships with customers</td>
<td>May have limited understanding of your complex product</td>
</tr>
<tr>
<td></td>
<td>Low fixed costs</td>
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### 11.11 AgraQuest

AgraQuest prepared a sketchy marketing plan in 1998 as it looked forward to launching its first product. Based on a review of this plan, prepared by Pamela Marrone and the vice president for product development, it moved to recruit a vice president of marketing and sales. The marketing plan described the market segment (customers) as farmers in the United States and Chile. AgraQuest planned to use distributors as the channel to distribute the natural biopesticide Serenade. The positioning map for Serenade is shown in Figure 11.13. The effectiveness of Serenade and chemicals was the same for most fungi; Serenade, however, had higher resilience (retention of effectiveness over time).
AgraQuest did some market research and realized that many farmers distrusted new bioproducts because of excessive or unfulfilled claims by other natural-product firms. It used field trials to demonstrate the product’s effectiveness and overcome the distrust. It also carried out a pricing study and decided to price its product at the same level as those of its chemical company competitors.

In 1998, AgraQuest hired its first vice president for marketing, who launched a large, traditional advertising campaign that consumed $500,000 over two years. The positioning statement was:

The Best Biopesticide on Earth!

The advertising and sales campaign was viewed by farmers as arrogant, considering the product was unproven, and failed to attract buyers. The first marketing VP left, and a second was engaged in 2000. He then proceeded to redo an advertising campaign to build image, brand, and acceptance, which also failed. Both VPs had worked for large chemical pesticide companies that used advertising campaigns to launch new products. AgraQuest, however, was a small start-up that needed a marketing plan that would help it attract farmers to try its product.

AgraQuest’s natural pesticides need to cross the chasm to the pragmatic farmer who is slow to adopt new tools and products. This slow, deliberate adoption process cannot be accelerated by advertising. It needs a series of deliberate trials and proof of its key advantage: resilience of the effectiveness of the product. AgraQuest installed a third vice president of marketing in 2003.

AgraQuest has a huge chasm to cross to convince mainstream customers that they should use Serenade. Success has come slowly by doing extra field
trials and demonstrating the efficiency and effectiveness to farmers in their own fields. Farmers will not use something if they have not seen it work. Breaking into the pesticide market with a natural product is very difficult. The industry is dominated by chemical pesticides that work very well. Farmers like them, and they have a 50-year history of use. A lot of companies have overpromised natural products that have not lived up to the pitch. So farmers are very skeptical about natural products.

AgraQuest uses a sales force of seven on a salary and bonus compensation scheme. Its markets are, in order of priority: grapes (United States and Chile), tomatoes, lettuce, bananas (Costa Rica), and apples.

AgraQuest had sales of $2.5 million in 2002 and $13 million in 2008. Serenade has a unique advantage because only natural products can be used in the weeks just prior to harvest. If it rains during that time, Serenade, unlike chemicals, can be used to prevent fungi. Harvest seasons in 2005 to 2008 were dry, however, so this competitive advantage is not constant over time or likely to apply very often.

11.12 Summary

Any new firm needs to build a marketing plan that describes how it will attract, serve, and retain the customers targeted for its products. Since a new firm normally starts without established customers, it must carefully identify the target market that will value its product. Market research can provide the information about the customers, appropriate distribution channels, and communication methods for attracting the customer.

The new firm creates a product positioning statement and selects a mix of price, product, promotion, and channels to attract and satisfy the customer. Most new firms are challenged to cross a chasm in the diffusion process that enables their product to attract the pragmatic and skeptical potential customer. The marketing process consists of describing or implementing the following elements:

- Product offering
- Target customer
- Marketing objectives
- Market research
- Marketing plan
- Sales plan
- Marketing and sales staff

**Principle 11**

A sound marketing and sales plan enables a new firm to identify the target customer, set its marketing objectives, and implement the steps necessary to sell the product and build solid customer relationships.
Video Resources

Visit http://techventures.stanford.edu to view experts discussing content from this chapter.

Passion and the Customer Vic Verma Savi
Marketing a Start-up Donna Novitsky Big Tent

11.13 Exercises

11.1 There continues to be a disparity between the advertising dollars spent on reaching TV viewers and Internet users versus the amount of time that is spent interacting with each media. A large degree of Google’s success is attributable to taking advantage of this large gap. Research to determine (a) TV advertising dollars and Internet advertising dollars spent, and (b) the amount of time spent watching TV versus using the Internet. How has Google taken advantage of this disparity? What other major societal trends are forecasted that will continue to shift advertising dollars to new mediums, and why?

11.2 With the explosion of mobile handsets worldwide, many marketing and advertising firms are looking at how to take advantage of the ubiquity of a communications device carried everywhere. Describe why marketers view the mobile handset as such a valuable marketing platform. What types of mobile advertising challenges do you foresee arising?

11.3 What is viral marketing? Provide an example of a start-up using viral marketing to promote and sell its product or service. Why does it work (or not work)?

11.4 Facebook and MySpace are rapidly growing social networking sites based in the United States but with global reach. Prepare a positioning map for these two firms.

11.5 BusinessWeek with Interbrand conducts an annual worldwide brand survey ranking the top 100 global brands. Examine the most recent survey and choose a new entrant to the list. Describe that company’s marketing objectives and customer target segments.

11.6 Powerful brands are built on innovativeness and advertising. Examine the brand value for Genentech, Merck, and Apple, and describe the reasons for their brand power.

11.7 Electronic Arts (EA) Sports has gained large brand value by securing an exclusive five-year license from the NFL in the United States. Determine if EA Sports has reaped the rewards from acquiring the rights to use the valuable NFL brand.

11.8 HDTV is an emerging consumer electronic technology. Discuss the marketing challenges associated with HDTV (e.g., building an
ecosystem of content, players, and content distribution). How do you see this influenced by (a) competing with DVD (the last technology generation) and (b) emerging substitutes like online digital content, PCs, and mobile devices? Use the categories of Table 11.9 to describe where the market response to HDTV has been to date and how long adoption has taken for each group.

11.9 Identify a high-tech firm that uses an indirect sales channel model. What is the model used? Why was the indirect sales model chosen for its particular products or services?

11.10 What is the best way to reward salespeople: salary, commission, or a mix of the two? How do the rewards motivate different selling behaviors? What is the best method for a new emerging medical technology business such as Enzo Biochem (www.enzo.com), or a clean-tech business such as Ausra (www.ausra.com)?

**VENTURE CHALLENGE**

1. For your venture, describe the customer and the target segment you have identified.

2. Develop a positioning statement using the template in Figure 11.4.

3. Using Table 11.3 and Figure 11.5, describe the market research and customer development plans.

4. Briefly describe the marketing mix for your product.

5. How will your venture sell its product and develop customer relationships?

6. Research the industry for your venture and determine the length of its sales cycle.