

Marketing 101



A little bit of marketing theory...

All it takes is a little theory practiced and applied, and soon you will find that marketing comes naturally.

Marketing is more than sales. Marketing is the set of activities used to

1. Get your potential customer's attention
2. Motivate them to buy
3. Get them to actually buy
4. Get them to buy again (and again...)

Marketing is how you define your product, promote your product, distribute your product, and to maintain a relationship with your customers.

Marketing theory is made up of the 5 P's.

Product

Positioning

Place

Price

Promotion

Each "P" contributes to your *marketing mix*.

Product



Product is, of course, the thing (or service) that you have to offer to the customers. There are a number of things about the product you should evaluate.

It is important to understand your product from the customers' point of view.

Product Description

It is critical to be able to say in one clear sentence why your product is perfect for a specific buyer and what it does best.

"To (target audience), (product name) is the type of (product) that (performs this task)."

Product Name

It is more important to be descriptive than creative. There are some exceptions to this - such as music band names.

One of the best ways to determine a name for a product is to have a brainstorming session. The rules of brainstorming are:

1. No ideas are rejected or criticized
2. It is a free form "brain dump"
3. Someone is in charge of writing the ideas on a board where everyone can see them
4. After the ideas are generated, they are ranked by preference
5. The pros and cons of the top ideas are discussed

Functionality, Features & Benefits

In order to begin to understand the product from a customer's point of view, list the functionality, the features, and the benefits that product has.

List functionality and features that could be added.

Prioritize each for the target market or market segments to determine the development of the product going forward.

This list will be used in positioning the product.

Product Adaptability

By understanding how adaptable your software is, you can incorporate the necessary elements into your marketing.

There are five factors for measuring how "adaptable" a new product is:

Relative advantage of the product: How superior is the innovation to the product or other problem-solving methods it was designed to compete against?

Compatibility: Does it fit with current product usage and customer activity?

Complexity: Will difficulty or confusion arise in understanding the innovation's basic idea?

Divisibility: How easily can trial portions of the product be purchased?

Communicability: How likely is the product to appear in public places where it is easily seen and studied by potential users?

Example - Product Music CD

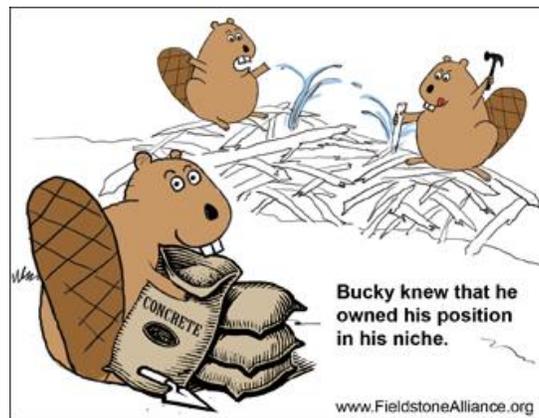
What is it that you are selling?

You could say you are selling music, or an experience, or a feeling, or yourself. But the bottom line is that you want people to buy your CD.

Note: Producing CDs has many advantages over producing tapes. CDs can be produced for about \$2 - \$3 each, and you can charge \$10 - \$20 for them. CDs give a professional, polished impression, and it is the media of choice for music listeners.

Ah. But what about tickets you sell to a show? Or T-shirts you sell? Aren't these your product? Not really. They are ways to promote your CD. Everything you do should be done with the end result of selling CDs.

Positioning



Simply, positioning is how your target market defines you in relation to your competitors.

A good position is:

1. What makes you unique
2. This is considered a benefit by your target market

Both of these conditions are necessary for a good positioning. So what if you are the only red-haired singer who only knows how to play a G minor chord? Does your target market consider this a good thing?

Positioning is important because you are competing with all the noise out there competing for your potential fans attention. If you can stand out with a unique benefit, you have a chance at getting their attention.

It is important to understand your product from the customers' point of view relative to the competition.

Environment

In order to begin positioning a product, two questions need to be answered:

1. What is our marketing environment?
2. What is our competitive advantage?

The marketing environment is the external environment. Some things to consider:

- How is the market now satisfying the need your software satisfies?
- What are the switching costs for potential users for your market?
- What are the positions of the competition?

The competitive advantage is an internal question. What do you have that gives you advantage over your competitors. Some things to consider:

- Is your company small and flexible?
- Do you offer low cost and high quality?
- Does your product offer unique benefits?
- Are you the first on the market with this product (First mover advantage)?

Positioning Strategies

There are seven positioning strategies that can be pursued:

<i>Product Attributes:</i>	What are the specific product attributes?
<i>Benefits:</i>	What are the benefits to the customers?
<i>Usage Occasions:</i>	When / how can the product be used?
<i>Users:</i>	Identify a class of users.
<i>Against a Competitor:</i>	Positioned directly against a competitor.
<i>Away from a Competitor:</i>	Positioned away from competitor.
<i>Product Classes:</i>	Compared to different classes of products.

Segmentation

There are three types of segmentation:

Mass Marketing or Undifferentiated Marketing: Go after the whole market with one offer and focus on common needs rather than differences

Product-variety Marketing or Differentiated Marketing: target several market segments and design separate offers for each

Target Marketing or Concentrated Marketing: Large share of one or a few sub-markets. Good when company's resources are limited

To identify a niche market, a series of 2 by 2 matrixes can be used to identify an area that is being overlooked by larger competitors. The competitors are mapped on this matrix and you can see where there may be some opportunities.

Positioning Differences

The differences that are promoted for a product must be:

Important: The difference delivers a highly valued benefit to the target buyers

Distinctive: Competitors do not offer the difference, or the company can offer it in a more distinctive way

Superior: The difference is superior to other ways that the customer might obtain the same benefit

Communicable: The difference can be explained and communicated to the target buyers

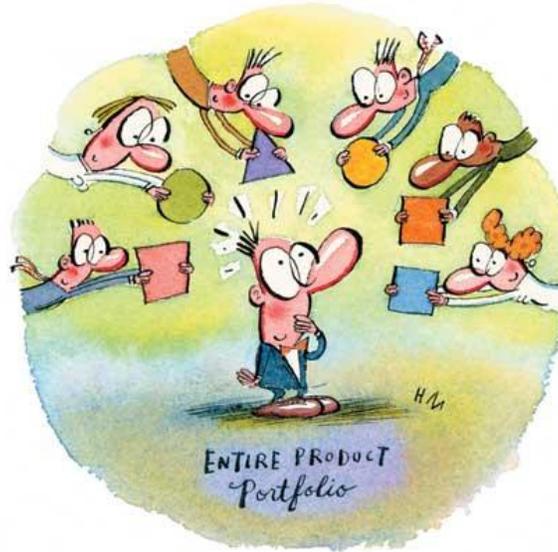
Preemptive: Competitors cannot easily copy the difference

Affordable: Buyers can afford to pay the difference

Profitable: Company can introduce the difference profitably



Place



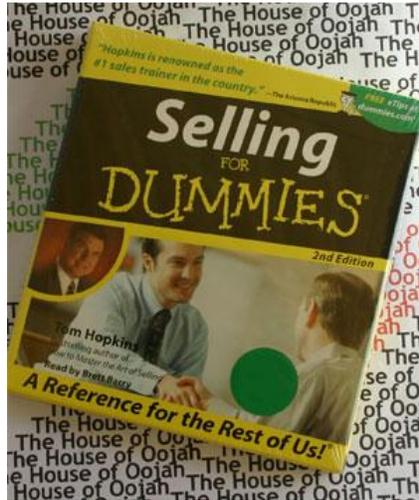
Place, or distribution channel, is the method for making your product available to the consumer.

Functions

There are eight main functions for distribution channels:

<i>Information:</i>	gathering and distributing marketing research
<i>Promotion:</i>	developing and communicating offers
<i>Contact:</i>	communicating with prospective buyers
<i>Matching:</i>	fitting the offer to the buyer's needs
<i>Negotiation:</i>	reaching agreement on price and terms
<i>Physical distribution:</i>	transporting and storing the goods
<i>Financing:</i>	getting and using funds to cover the costs of channel work
<i>Risk taking:</i>	assuming the risks the channel work.

Example - Selling a CD



Place is simply where your fans buy your CD. You can also call it distribution.

There are many ways to distribute your CD.

Retail

Probably the most difficult is retail (selling your CD in music stores). This is difficult for independent musicians or bands because you usually need to have a relationship with a distributor.

Online

Isn't the Web wonderful? You can easily and cheaply set up a web page with your information, sample audio files, show dates, and how to order your CD.

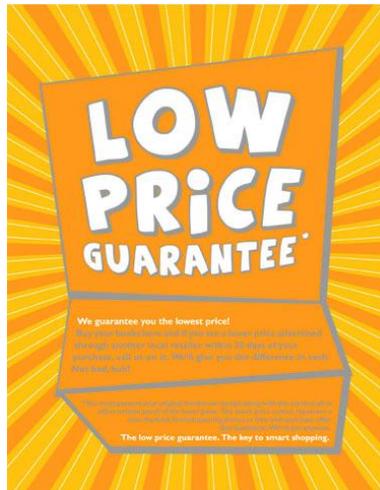
In Person

Whenever you perform, you should sell your CDs. You can mention that you are selling CDs and where to buy them while you are performing. It is easier if you have a friend to help you. This person can collect the money, hand out the CDs, etc. so you don't have to worry about it during a show.

In Home

There is nothing wrong with telephone orders!

Price



Price is the amount of money charged for a product or service or the value exchanged for the benefits of the product or service.

For a new product, you must understand your positioning before you set a price. Make sure it is not too low, or the product will not be taken seriously. If it is too high, the potential customer will not take the risk.

Pricing Strategies

There are five general pricing strategies:

Product Line: Setting price steps between product line items

Optional Product: Pricing optional or accessory products

Captive Product: Pricing products that must be used with the main product

By-Product: Pricing low value by product to get rid of them

Product Bundle: Pricing bundles of products sold together



New Product Pricing



There are two new product pricing strategies:

Market-Skimming: Initially set high prices to "skim" revenue layer by layer from the market.

Works when:

- Quality and image support the higher price
- Enough buyers want the product at that price
- Cost of producing a small volume cannot be high
- Competitors should not be able to enter the market easily

Market Penetration: Set a low initial price in order to penetrate the market quickly and deeply to win a large market share. Works when:

- Market is highly price sensitive
- Production and distribution costs fall as sales volume increases
- Low price must help keep out the competition



Price Adjustment

The following are price adjustments based on changing situations:

Discount & Allowance: reduced prices to reward customer responses such as paying early or promoting the product

Discriminatory: adjusting prices to allow for differences in customers, products, and locations

Psychological: adjusting prices for psychological effects. Ex: \$299 vs. \$300

Value: adjusting prices to offer the right combination of quality and service at a fair price

Promotional: temporarily reducing prices to increase short-run sales

Geographical: adjusting prices to account for geographic location of customer.

International: adjusting prices in international markets



Promotion



Promotion is the specific mix of advertising, personal selling, sales promotion, and public relations a company uses to pursue its advertising and marketing objectives.

If you are an entrepreneur, you most likely have limited resources and you are still learning about the market. Information gather is extremely important at this stage of the game. The trick is the start the revenue stream without spending too much money.

Objectives

The objectives that are met by promoting are to move the target market through the following phases:

Unawareness -> Awareness -> Beliefs/Knowledge -> Attitude -> Purchase Intention -> Purchase

It is believed that consumers cannot skip over a phase, but they need to move through them. Promotion is used to move the target market from one phase to another to finally purchase.

The Offer

The offer needs to be identified before you begin any promoting. What are you offering the target customer? What do you want the target market to do?

One mistake that can be made is to create a promotional advertisement and not tell the customer what to do. You should prompt the customer and tell them to "call this number to place an order" or "download this software from our web site".



Measuring Response

Testing different offers, advertisements, direct mail letters, lists, and promotion techniques can tell you what method is most effective. There is a trade-off. Testing is expensive. You need different versions of promotions, which raises production expense. You need to track the results, which takes time. But the information you gather could help you reduce wasteful, ineffective spending in the future.

If you decide to test, make sure you have a method for measuring response. You can do this by first asking the customer where they heard about you when taking the order, if it is a telephone order. If it is an order form that they mail back to you, you can code the order form with a tracking number that lets you know exactly what promotion the customer is responding to. This information can then be entered into the customer database for future analysis.

World Wide Web

The Web allows for a cheap way of promoting your product. It is a great tool because it allows the target customers to educate themselves about your product by reading about it, seeing a demo, and download a copy (and therefore serve as your distribution channel).

Remember, you are trying to reduce the perceived risk of purchasing your product. By providing a Web page, you are moving the target market through the communication cycle from unawareness to purchase.

Also, you are trying to reach innovators and early adopters. These people are actively searching for better ways to meet their needs. The Web is a natural place for them to go to look for you.

The difficulty with the Web is all of the noise out there. It is very crowded and difficult to be noticed. Register with all of the search engines, such as Yahoo and Alta Vista. Make sure that there are keywords in your web site that will attract your target audience.

Direct Mail

An average response rate for direct mail is about 1%. This depends on the offer, the mailing list, the target audience, the creative (how the direct mail piece looks), and the timing of the mailing. There is a whole industry built around direct mailing.

This promotional activity involves many steps. For more detail on how to execute a direct mailing, refer to Direct Mail.

Direct mail is a way of promoting your software product by sending prospects mail. It is a way of directly communicating to a list of people.

List Selection

A list is the names and addresses that you use to send your direct mail piece. This list is very important to the success of a mailing. Some experts place 40% - 60% of importance to the list and 40% - 60% to other combined factors, such as offer, sales letter, and timing. You rent a list from a company - as opposed to buying a list. You can rent a list for one-time use, n-time use, or unlimited use. However, until you test the list, it would be best to rent it for one-time use. Once you determine which list works for you, then you can start negotiating multi-use lists.

Be aware that list rental companies track the use of your list. They include "seed" names that you will not be able to identify. These seed names show if you use the list more times than you rented it for. Once a name on the list contacts you, whether to buy or simply inquire, you can then use that name any way you want. They are considered your customer now.

You rent lists from a variety of sources:

Compiled List: Names and addresses from a common source - such as a phone book. These lists are the least expensive, but have the lowest response rate.

Mail Order Buyer Lists: Names and addresses of people who have responded to direct mail in the past. Lists can be selected by lifestyle or special interests. These lists respond better than compiled lists.

Publication Lists: Names and addresses of people who subscribe to a particular magazine. General interest magazines tend to have a lower response rate than special interest magazines. Special interest newsletters have a small circulation, but if this group is your target market, it can have a better response rate than other lists.

Donor Lists: Names and addresses of people that are of interest to non-profit organizations.

House Lists: Names and addresses owned by a specific company of customers and inquires of their product.

You can narrow lists down by demographic information, such as gender, geographic location, income, homeowners, frequency of purchase, recency of purchase, and monetary (amount) of purchase. Recency of purchase tends to be a good indicator of response rate. The older the names, the less likely the response - although you must test your lists to determine how old is old.

Make sure that the company renting you the list has merged/purged it for duplicate names, has updated the names and addresses using NCOA (National Change of Address), and cleaned the file (removed all non-deliverables from the list). You should have in your contract you get credit for names that are returned for non-delivery.

You should merge/purge the file against any customer list you already have, or any other rented lists you have.

Prices are usually given in cost per thousand. There is usually a minimum order - such as 5,000 names. There is usually a cost to select based on certain criteria. Price ranges can be from \$50/M to \$300/M for a base price. Each source varies. However, the cheapest list may not be the most cost effective. You need to look at cost per acquisition once the mailing is complete.

Common Measurements

Cost per acquisition = Total Cost of Mailing / Number of Responders (people who ordered).

Cost per piece = Total Cost of Mailing / Number of People Mailed.

Response rate = Number of Responders / Number of People Mailed.

Response rates to prospects (non-customers) average around 1%.

Response Mechanism

One of the most important parts of your direct mail piece is the response mechanism. This is the device that the prospect will use to place the order (or request information).

In designing your response mechanism or order form you need use all you have thought about so far - your offer, your product, the benefit it gives your customers, the price, and the risk reducer (such as a money back guarantee or a free trial period).

Make it easy for the prospect to place the order. Give them many ways to do it - telephone, e-mail, fax, mail back order form.

Tell them exactly how to pay for the order.

The response card should be easy to fill out, offer as few choices as possible, be short, and be easy to read and understand.

Although using a postcard may be cheaper, people will not put confidential information on a postcard. They will not put credit card number or even name and phone number on something everyone can read. Use a business reply envelope, even if it is a little more expensive. You will get a higher response rate. And make sure the response card fits in the envelope without folding it.

Involvement devices work. Give the prospect something to do, such as check a box to order or place a sticker or stamp on the order form.

Give the order form a look of intrinsic value. Use the bond-like borders, seals, stamps, and other money look a-likes.

Product Brochure

This piece of the direct mail can be made a little more "slick" than the sales letter will be. The brochure will describe your product, the technical specifications, the benefits to the customer, and testimonials from other customers, any free trial period, and money back guarantee.

Include the company's name, address, phone number, fax number, and web address.

Sales Letter

The first line of a sales letter is a headline. It should give the reader immediately the benefits of the offer being made. This is the first thing a reader will read.

The P.S. at the bottom of the letter is the second thing a reader will read. Be sure to add a P.S. to your letter, giving the offer, the benefits, the free trial period, and the deadline.

The average length of the sales letter is 4 pages long. Two pages long is considered a short length letter and six or more is considered a long length letter. Printing on both sides of a page test as well as one sided print.

The use of push dates test better than no push dates. A push date is a deadline for the prospect to order - "PLEASE RESPOND BY MONDAY". If you are going to use a specific date, allow for at least three weeks for delivery for third class mail.

Envelope

The first thing the prospect sees is the envelope. Some people use this to print a "teaser" copy on the front of the envelope. This could be used to hint at what great offer lies inside if they just would open the letter.

The risk is that the teaser copy immediately tells the prospect that this is another advertisement junk mail piece, and it may not get opened as a result.

If you do use teaser copy, make sure that whatever is promised on the outside is fulfilled on the inside. Otherwise the person will be angry, and therefore, no sale.

Testing and Tracking Response

On your response card, you can assign a code so you can keep track of what the customer is responding to. What list did you use, what offer, what sales letter, what brochure, what price, etc. There is no limit to the things you can test via direct mail. For example AA-123-MA-1 could translate to the first mailing of list source AA, sales letter 1, brochure letter 2, price 3, in Massachusetts. If you are testing price, make sure that everything else is constant. Use the same

list and the same direct mail piece, with just the price changed.

Some Tricks That Work

Remember that direct mail is a personal medium. The more personal you can make your mail look, the better response you will get.

Stamps work better than metered mail. Stamps look more like a personal letter.

First-class stamps provide a fast delivery, but don't necessarily improve response rate version third-class stamps.

Flamboyant color just for the sake of color does not pay off. If you decide to use some color for conservative enhancement, browns and greens do not work as well as aquamarine blues, cold and warm grays, warm reds. Some other successful colors have been bright orange, yellow ochre light and/or a metallic gold.

Soft white book and antique-finish papers work better than slick super white paper. Cheap thin paper makes the product look cheap.

Address labels perform worse than computer printed addresses directly on the envelope.

Make a dummy sample to determine folding of paper, size, and most importantly weight. Postage is very expensive, and if you go over the designated weight set by the post office, you will be paying for it. See the post office for the weight and size limits for first-class and third-class mail.

People like to do things. Checking a box, using stickers and stamps, work to improve response.



Classified Advertisements

Although it may nice to be able to take out a full color, full page advertisement in an industry magazine, it is very expensive and will not reach your target market of the innovators and early

adopters. This target market will read the classified ads in the magazines looking for and willing to try new things.

The key for classified advertisements is frequency. Running an ad once will create awareness, but not necessarily action.

Request a media kit from the magazine you are considering. This should contain circulation information, subscriber profiles, and prices. This will help you determine if your target market reads this magazine.

Press Releases

A press release is an announcement of a new product release. Editors may take this information and publish it as news in their magazine or newspaper. This is a great way to get free publicity.

To send a press release, you should prepare a press kit that includes:

- Cover letter to the editor
- Press release product announcement
- Product features sheet
- Corporate background sheet
- Evaluation product
- Technical specifications sheet (if any)
- Reprint of any past articles
- Names of end user contacts and comments
- Picture of your product

The editor may take your product announcement, make some modifications to it by hand, and send the original to be printed. In general, editors like to have the press releases double spaced with plenty of margin room.

There can be a 3-4 month lead time before your press release is published.

If possible, tie your press release into current events or human interest. It has a better chance of being published.

Don't write your press release like an advertisement. Any claims you make, be sure to back them up with user testimonials.

Tailor your press release to each publication, or at least each type of publication. Mass mailing press releases don't usually get published. Also, send your press release to one person at each magazine. If you are unsure of the person, contact the magazine for a contact name.

Include in your press release the product name, the price, a company contact name, the company name, address, phone number, fax number, and e-mail address. Be prepared to take questions.

Your opening sentence should be clear and concise. "The first (product) capable of (doing this benefit) is now available from (your company) for people who need to (this need)".

Product Reviews

Magazines have product review editors that review it in an article or column. This can provide great exposure. However, it can also be risky. What damage will it do if you get a bad review? Before pursuing this promotional activity, it may be safest to fully complete testing, and have contacted many new customers to get their feedback on the product. Make sure there are no surprises.

Choose a magazine your target market is reading. You can always use quotes from the review in your promotional material for other promotions. With more people accepting the product, the faster you will move past the early adopters and innovators.

Call the magazine for the name of the correct person to send the product to. Ensure that this person gets a full product.

Be available for questions. If a reviewer has problems, there will usually be a phone call to the company first.

Example - Promotion Your Music

Shows	Direct Mail	Web Page	Posters
Event Listings	Reviews	Radio	Word of Mouth
Press Releases			



Target Market

Target market is the group of potential customers selected for marketing. If you are looking to segment the market, you need to determine the different target markets for each segment.

For new products, there is a theory that you will have different groups of people. Each class has different risk tolerances.

Innovators	First 5% - 10% that adopt the product
Early Adopters	Next 10% - 15%
Early Majority	Next 30%
Late Majority	Next 30%
Laggards	Remaining 20%

Innovators and Early Adopters

The innovators and early adopters are critical to launching a new product. If you could target your initial efforts at these groups, your limited resources will be well spent. They will become your champions.

But who are they? Not an easy question. From some studies, the characteristics of the innovators and early adopters are:

Venturesomeness: the willingness and desire to be daring in trying something new and different

Social integration: frequent and extensive contact with others in one's area

Cosmopolitan: point of view extending beyond the immediate neighborhood or community

Social mobility: upward movement on the social scale

Privilegedness: attitude and possession of money (less risky to try something new)

But be aware that it is not necessarily a smooth ride to go from one risk group to another. There is often times a time gap between moving from the innovators to the early adopters and then to the early majority and so on.

Target Market Influencers

In addition to targeting innovators and early adopters, finding the innovators and early adopters among the influencers of your market is important for a marketing plan with a limited budget.

Example - Target Market for Your Music

Many bands begin in the college market. Why? College students are target market influencers, and many fit the definition of early adaptors and innovators.

