Crucial Marketing Concepts for Startups

Although technology keeps changing and evolving, the marketing physics remain constant.

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The language and theory used to develop and describe a business plan has evolved considerably over the pat 30 years. Much marketing wisdom is contained in the terms, metaphors, and parables created to describe the effects of disruptive technology. Although technology keeps changing and evolving, the marketing physics fundamentals remain constant. In brief, this article provides startups with explanations on:

- How the world works
- Viewing the world
- Influencing and changing the world

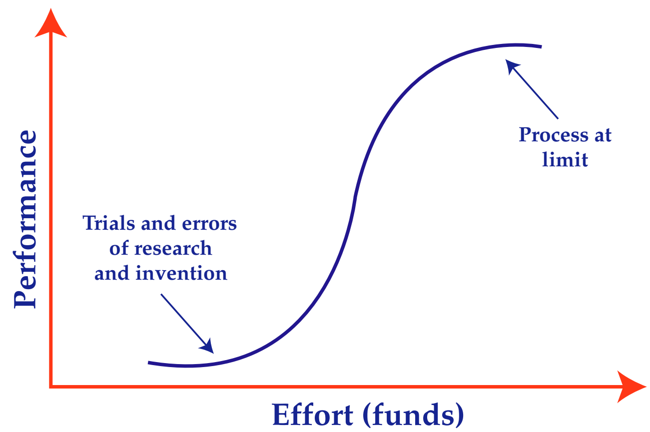
It easy to forget these principals when in the trenches trying to bring in sufficient revenue to make the next payroll. But the consequences of being opportunistically sales driven, lacking the self-discipline to say, "No," and not focusing on market niches having the most pain, frequently results in long term disaster.

How the World Works

Many startup strategies are based on disruptive technology or processes and cite its use in their business plans as providing a competitive advantage that will allow them to succeed in the market. The following concepts are frequently used in providing a marketing framework:

S-Curve, Efforts vs. Results

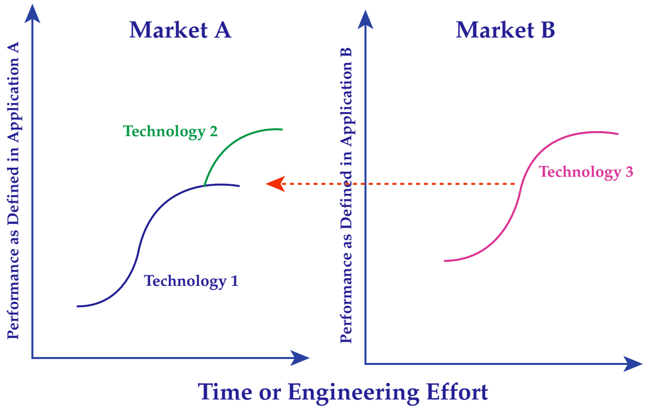
Richard Foster in his 1985 book, "*Innovation: Attacker's Advantage*" describes the S-curve as showing the relationship between the effort used in improving a product or service versus the results obtained for that investment.



He observes that there is an initial setup cost during which little return is seen, represented by the bottom of the S curve. Once all the key knowledge has been understood, rapid growth occurs, as seen by the middle of the S curve. Eventually the technology or process plateaus and reaches a limit, forming the top of the S curve.

How Disruptive Technology is Adopted

The insight provided by Clayton Christensen, *The Innovator's Dilemma* (1997), is that a disruptive product's first market is typically a non-consumer of the existing technology. It is usually a market segment not well served due to an existing product being too costly or large. Often this means focusing on the most commoditized, least-profitable portion of the market, and requires being sold through a different channel.



He notes the difference between sustaining and disruptive technologies:

- **Sustaining technologies** improve the performance of existing products in relation to the criteria which existing customers have always used.
- **Disruptive technologies** create a new value proposition by enabling products that are often smaller, cheaper, simpler, and easier to use.

How New Technology Gets Adopted

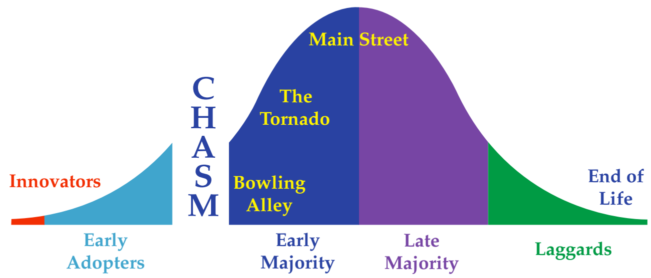
Everett Rogers in his book, *Diffusion of Innovations* observes that, "Getting a new idea adopted, even when it has obvious advantages, is often very difficult. Many innovations require a lengthy period, often of many years, from the time they become available, to the time they are widely adopted. Therefore, a common problem for many individuals and organizations is how to speed up the rate of diffusion of an innovation.

He cites five characteristics for technology acceptance:

- **Relative advantage**, the extent to which it offers improvements over available tools
- **Compatibility**, its consistency with social practices and norms among its users
- **Complexity**, its ease of use or learning
- **Trialability**, the opportunity to try an innovation before committing to use it
- **Observability**, the extent to which the technology's gains are clear to see

Technology Adoption Life Cycle

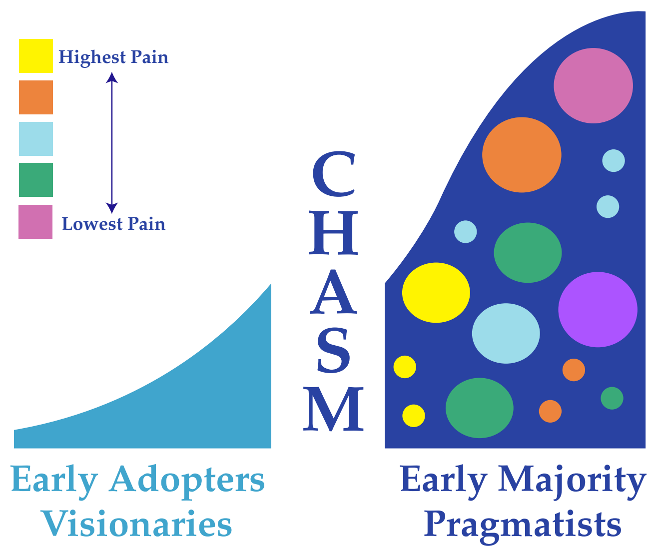
The following "Technology Adoption Life Cycle" illustration shows that technology is absorbed into any given community in stages corresponding to the psychological and social profiles of the various segments within that market.



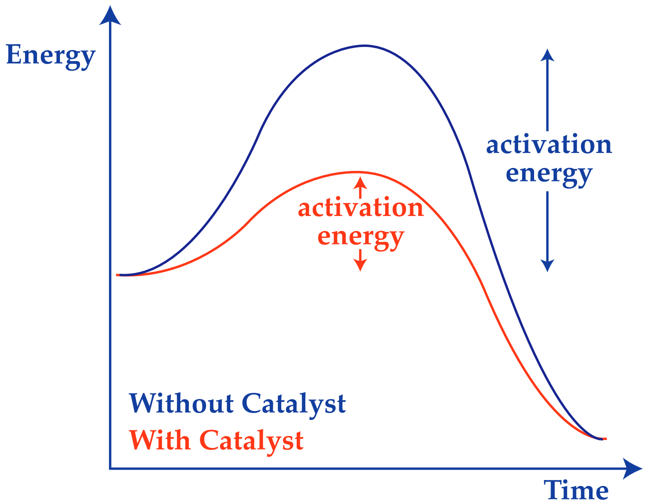
Geoffrey Moore's key insight was the concept of "*Crossing the Chasm*". He observed that the early majority is not influenced by early adopters. Rather users in this market want all the comforts of an established market and desire a complete product.

Target Customers Having Most Pain

The first step in devising a strategy to penetrate the early majority market is to identify the many market segments it contains, and categorize them by the amount of pain that they are experiencing.

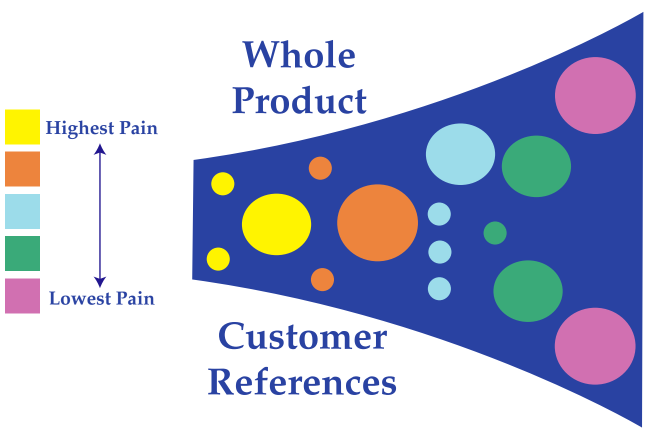


Pain acts like a catalyst in lowering the energy necessary to achieve a chemical reaction. It makes a potential customer more willing to take the risk of trying a new solution.



The next step is to target the segments having the most pain by developing a complete product. As William Davidow states in *Marketing High Technology*, "a complete product includes its quality, service, support, documentation, training, and development kits are just as important as the "core product" of hardware, software, and system.

As shown in the following diagram, the customer references from each success, help in subsequently targeting new market segments.



Maxwell's demon is a 1867 thought experiment by James Clerk Maxwell. A box is divided into two partitions. A demon opens and closes a hole between the two partitions, opening it for high speed molecules and closing it for lower speed molecules. This causes the temperature of one partition to increase and the other to decrease, without expenditure of work, in contradiction of the second law of thermodynamics.

In this context, the objective of the marketing demon is to find the customers with the most pain, and let them pass through.

How Startups Need to Look at the World

Startups tend to look for disruptive opportunities provided by new knowledge or technology that allow them to go where others are not. At the same time, the strategies available to a startup are limited by their resources.

When making marketing choices, most executives, like marriage-averse bachelors, shy away from committing to specific niche markets. The consequence, being sales-driven during the Chasm period is a fatal decision, in which the startup attempts to be all things to all customers. A successful niche marketing strategy requires management to have the self-discipline to stay focused on specific niches; avoiding the temptation of pursuing any sale at any time for any reason.

To achieve success during the Chasm period, the startup needs to provide the complete set of products and services needed by a given market niche. This can only be achieved if the initial sales effort is focused on only one or two niche markets.

What is a market niche? Simplistically, a market segment is defined as a group of customers sharing common desires, needs, and buying patterns. Realistically, as William Davidow observes, it is challenging to identify the dominant characteristics in a customer population, segments are not neat and tidy.

Limited Resources

A common mistake for many startups is that they focus on driving the benefit higher and higher, when instead, they should be focusing on shrinking their time to market by providing less benefit. A startup has finite, limited resources. Its objective should be to provide the most bang for the buck. *The Blue Ocean* strategy espoused by W. Chan Kim and Renee Mauborgne is to understand what features customers really care about, providing fewer total features, but enhancing the remaining features. It takes tremendous discipline to focus only on the essential subset of features that people really want.

Unserved Market Niche

It is best to focus on an unserved market niche, avoiding at all costs, strategies that go after the core customers of a large market participant. For example, if you try to take customers away from the Microsoft Enterprise Group, they'll kill you. But if you go after small groups of five people, serving customers that Microsoft doesn't care about, they will not worry about you, and will say, "knock yourself out."

Clayton Christensen in his books notes that selling to unserved market niches also affords a certain amount of protection by operating below the radar, in stealth mode.

Market Driven

Steve Blank in *Four Steps to the Epiphany*, notes that most early product teams are engineering led, and have a tendency to do products based upon a engineering prototype, alpha, beta, release schedule. This approach is not appropriate for marketing tactics and often results in market failure.

Steve advocates a market driven approach, minimizing expenditures of funds by iterative feedback steps, until one become certain about the optimal approach. He suggests beginning with a hypothesis, looking for opportunities and benefits for customers if they change. As part of this process, he notes that the technology is not enough, it is essential to determine the complete solution required by the prospective customer.

Build Upon Other Solutions

Discovering how someone else has solved a problem, and building upon it, is often much more productive than starting from scratch. Avoid reinventing the wheel.

"*Natura non facit saltum*" (nature does not make leaps). Andrew Hargadon <www.andrewhargadon.com> observes that this rule applies for human nature as well." Evolution takes time, as do business decisions. Often, the future is already beginning to happen, it takes an astute observer to recognize this.

Coming up with new ideas means working in new settings with much uncertainty, where the value of our contributions is uncertain. It is easy to become discouraged and it requires considerable determination to persist.

Monkey Trap

Many times we are our own worst enemy. We tenaciously hold on to our problems, refusing to try any other approach.

In Africa, monkeys are trapped by depositing a handful of sweet-smelling nuts into long narrow neck bottles. The monkey can't take its hand out of the bottle as long it holds the nuts, but it is unwilling to open its hand and let them go. The bottle is too heavy to carry away, so the monkey is trapped.

A startup needs to periodically reassess its assumptions and prejudices against market realities, and be willing to change its approach.

How to Influence and Bring Change to the World

Having found a market niche opportunity, how does a startup influence, persuade and convince customers within that niche to change and buy its product or solution? In essence, how do you cross the Chasm?

In *Jump Start Your Business Brain*, Doug Hall states that in order to get people to adopt your technology, you need to obey ***The Three Laws of Marketing Physics for Products***, by showing:

- **Clear benefit** - what's in it for the customer?
- **Real reason to believe** with supporting evidence - community groups; trusted friend. Why should the customer believe you will delivery on the promise of the clear benefit?
- **Dramatic difference** - How revolutionary and new to the world is your benefit / reason to believe?

Clear Benefit

Demonstrating a clear benefit is often done by quantitative measurements before and after. This demonstration is particularly effective when you can show them something that they believe can't be done, "If I can cut board routing time to 20 minutes, you would use this tool?"

Keep in mind that while we think that we are making decisions based on objective reality, what actually happens is that we believe what we want to believe, or on someone else's perception of reality.

This ties back to the previously mentioned book by Everett Rogers, *Diffusion of Innovations* in which he cites the need for relative advantage, showing the extent to which a product or service offers improvements over existing solutions.

Reason to Believe - Power of Referrals

One of the most powerful ways of providing a reason to believe comes from referrals. Robert Cialdini notes that social proof is an important means that we use to determine what is correct by finding out what other people think is correct.

A referral is an introduction to a prospect with an endorsement. They come from shared success with your customers or former co-workers, someone who knows your potential and can vouch for you or your team's ability to deliver. Meaningful referrals do not come from a casual contact with someone you have met and spoken with only a few times: without a history of shared success they cannot substantiate your ability to deliver value.

With the advent of the Internet, the ability of customers and prospects to obtain information on a product or service has greatly improved. The principal of social proof can be leveraged by targeting every customer as a reference, enabling you to use them as a real testimonial.

Interviewing Customers

When interviewing customers, ask them to describe their pain and the benefits they received from your product or service:

- Interview customer & visit their workplace
- Understand why they bought
- What benefits do they believe accrued?
- Use their description of pain & benefits

In this manner, you obtain insights as to what they will tell others, and avoid the "echo chamber" effect where they tell you what you want to hear, versus what they actually feel and believe.

Referrals reduce the prospect's perception of risk and vouch for the value delivered. It lets you borrow credibility from a third party.

Viral Marketing

There has been considerable attention given to viral marketing, with the attitude that word-of-mouth is sufficient to sell a product. Robert Cialdini in *The Psychology of Persuasion* provide excellent insights as to what causes something to become viral.

While we are capable of independent thought, we frequently act on automatic pilot, to allow our conscious mind to focus. As a result, we can be easily manipulated by our desire to be and appear to be, consistent with our past actions and statements, swayed by what the crowd is doing, and various other mechanisms.

Social proof is one means that we use to determine what is correct by finding out what other people think is correct.

Dramatic Difference

A trusted and impartial third party such as an industry analyst or reporter, knowledgeable about both your product or service and the customer's industry, can be extremely convincing in establishing the revolutionary nature of your offering.

Marketing Takes Time and Effort

Al Ries and Jack Trout in *The 22 Immutable Laws of Marketing* note that marketing efforts focused on producing short-term gains results in long-term losses. While coupons and rebates increase sales in the short term, sales drop as soon as they are stopped. Line extensions increases short-term sales, but ultimately cause one product to undermine another.

You need to get your idea or concept into the mind of a prospect before it is made up because once it is made up, it is virtually impossible to change it. One way to do this is by being the "first" in a sub-category. Examples are Miller Lite with the first domestic light, Michelob — the first high-priced imported beer, Amstel Light — the first imported light beer, and Charles Schwab — the first discount broker.

Once a word has become associated with a given company, it is very difficult to change people's mind about it. Safety = Volvo, overnight = FedEx, long-lasting = Duracell, and fast food = McDonald's.

Build on Trends, not Fads

As Robert Cialdini observes, opportunities seem more valuable to us when their availability is limited. Controlling appearances and avoiding overexposure by never totally satisfying demand is key to obtaining long term business.

Consider the long term business obtained by Barbie dolls versus the fad and resulting overexposure and collapse of the market for Cabbage Patch dolls. Or more recently, the over saturation of the Motorola Razr phone versus the growing demand of the Apple iPod.

Be Prepared

Gerald Weinberg in *The Secrets of Consulting*, notes that you have to accept the risk of failure in order to succeed. He advises that for every plan you identify three things that might go wrong, and figure out how to prevent, mitigate, or fix it. And if you can't do this, there is something wrong with your thinking.

Referrals are built upon trust, something that can take years to win and moments to lose. And people won't tell you they have stopped trusting you.

Summary

In summary, this article has addressed:

- How the world works for disruptive technologies
- How startups need to view this world
- What strategies are available to startups for marketing disruptive technology.

These points are based upon own experiences and from a synthesis of set of classic high technology business books. (A brief synopsis of these books forms the appendix of this paper).

How the World Works

The Innovator's Dilemma, Clayton Christensen, 1997

Crossing the Chasm and *Inside the Tornado*, Geoffrey Moore, 1991, 1995

Innovation and Entrepreneurship, Peter Drucker, 1985

Marketing High Technology, William Davidow, 1986

How Startups Need to Look at the World

Four Steps to the Epiphany, Steve Blank, 2003

Jump Start Your Business Brain, Doug Hall, 2001

E-Myth (Revisited), Michael Gerber, 1995

Blue Ocean Strategy, W. Chan Kim & R. Mauborgne, 2005

How to Influence and Bring Change to the World

Secrets of Consulting, Gerald Weinberg, 1985

Influence: The Psychology of Persuasion, Robert Cialdini, 1984

The 22 Immutable Laws of Marketing, Al Ries and Jack Trout, 1993