# Crucial Marketing Concepts for Startups

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

by Sean Murphy, skmurphy@skmurphy.com, www.skmurphy.com and Mark Duncan, mark@askmar.com, www.askmar.com

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

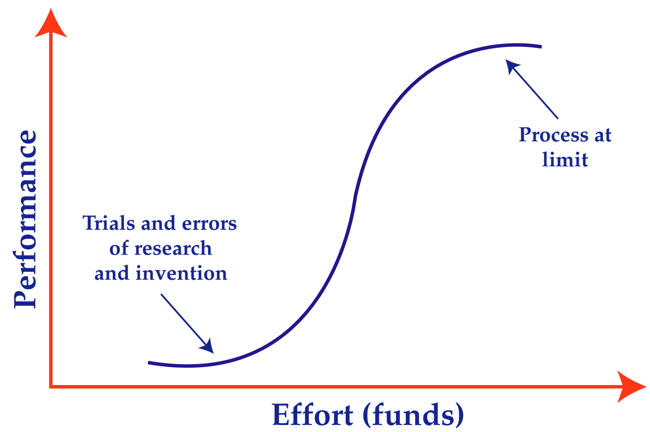
It easy to forget these principals when in the trenches trying to bring in sufficient revenue to make the next payroll. But the consequences of being opportunistically sales driven, lacking the self-discipline to say, “No,” and not focusing on market niches having the most pain, frequently results in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

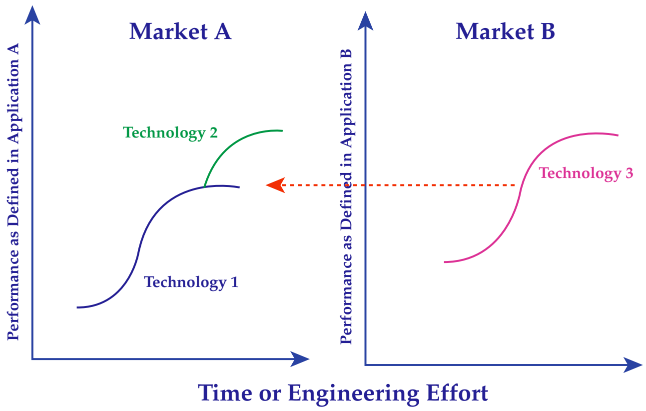
Richard Foster in his 1985 book, “*Innovation: Attacker’s Advantage*” describes the S-curve as showing the relationship between the effort used in improving a product or service versus the results obtained for that investment.




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

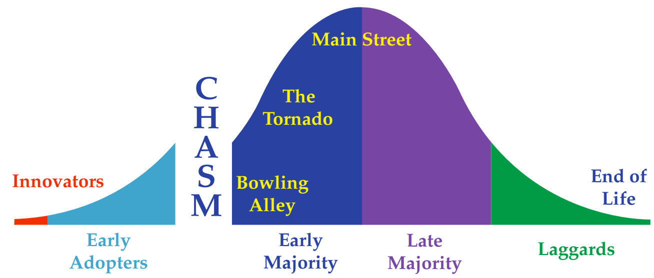
Everett Rogers in his book, *Diffusion of Innovations* observes that, "Getting a new idea adopted, even when it has obvious advantages, is often very difficult. Many innovations require a lengthy period, often of many years, from the time they become available, to the time they are widely adopted. Therefore, 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

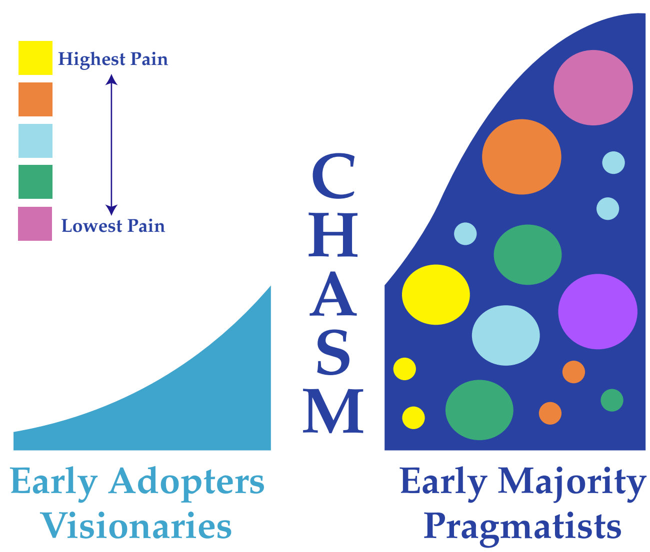
The following "Technology Adoption Life Cycle" illustration shows that technology is absorbed into any given community in stages corresponding to the psychological and social profiles of the various segments within that market.



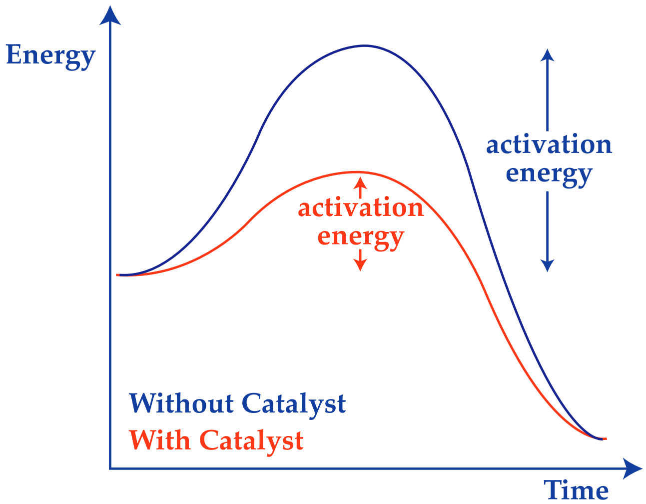

Geoffrey Moore's key insight was the concept of "*Crossing the Chasm*". He observed that the early majority is not influenced by early adopters. Rather users in this market want all the comforts of an established market and desire a complete product.

## 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.

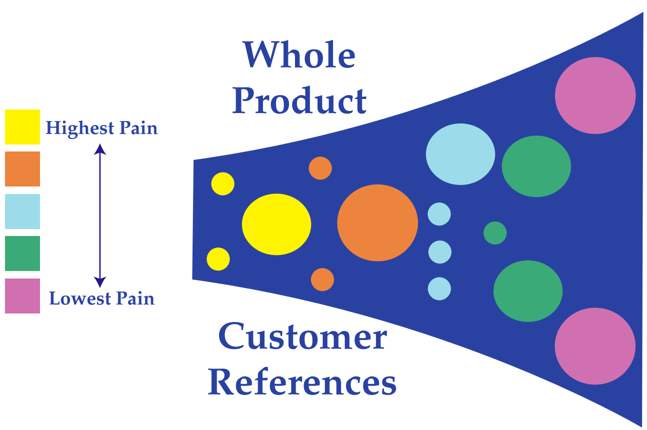



Pain acts like a catalyst in lowering the energy necessary to achieve a chemical reaction. It makes a potential customer more willing to take the risk of trying a new solution.




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

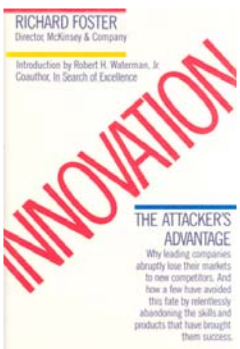
*Influence: The Psychology of Persuasion*, Robert Cialdini, 1984

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

# Innovation Books

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. Two seminal books articulating these concepts were written by Richard Foster and Clayton Christensen.

## Innovation: The Attacker's Advantage

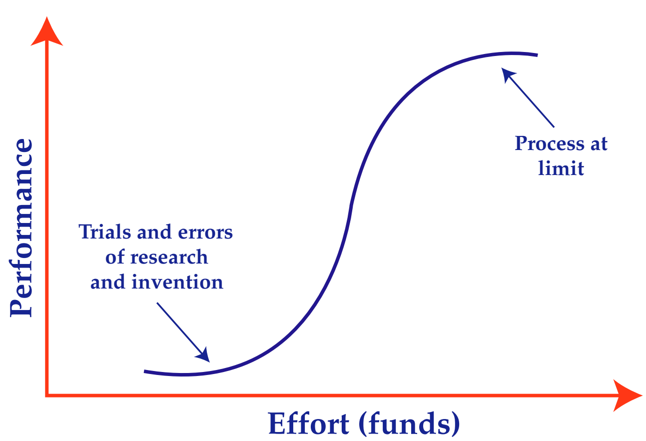



Why do some companies suddenly lose their markets to new competitors, while other companies avoid this fate? As a senior partner and director at McKinsey, Richard Foster in his 1985 book, "*Innovation: Attacker's Advantage*" advocates that this is a function of how well companies handle innovation. He provides insights into what kinds of innovations create market discontinuities that small firms can exploit and identifies areas a startup should avoid.

- **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.

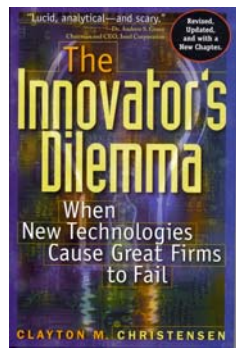
The S-curve shows the relationship between the effort used in improving a product or service versus the results obtained for that investment.

## S-Curve For Technology Investment



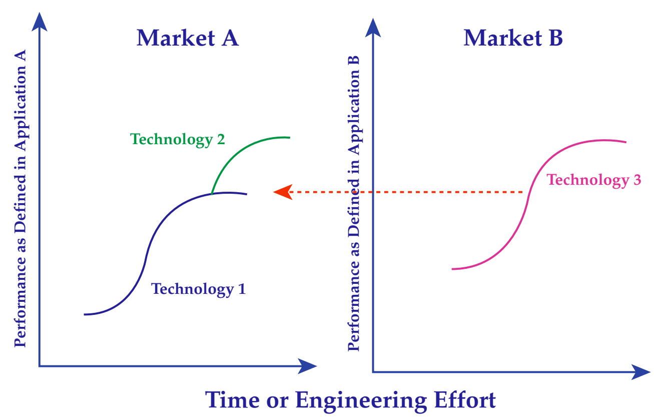

He observes that there is an initial setup cost during which little return is seen, represented by the bottom of the S curve. Once all the key knowledge has been understood, rapid growth occurs, as seen by the middle of the S curve. Eventually the technology or process plateaus and reaches a limit, forming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

## The Innovator's Dilemma




Clayton Christensen is a professor at the Harvard Business School, who is the author of The Innovator's Dilemma[1] (1997), The Innovator's Solution (2003) and Seeing What's Next (2004). He observes that "Great firms can be undone by disruptors who analyze and exploit an incumbent's strengths and motivations."

A disruptive product's first market is typically a non-consumer of the existing technology, a market segment not well served due to the 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.




An example of a disruptive technology is flash memory. Although flash memory was more expensive per megabyte and could not be written on as many times as disk drives; they were well suited for use in digital cameras, cell phones, and modems, where disk drive were too large, fragile, and power hungry.

Flash memory has effectively eliminated low capacity disk drives from being competitive in size or cost for most applications.

[1] The Innovator's Dilemma, by Clayton Christensen, 1997, Harvard Business School Press

# How Innovation Spreads

What is the process by which innovations are adopted? The concepts contained in books by Everett Rogers and Geoffrey Moore are often used by startup in their business strategies for entering markets.

## Diffusion of Innovations

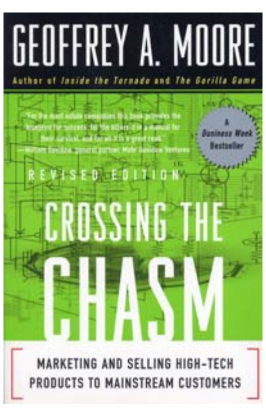
Everett Rogers in his book, “Diffusion of Innovations” observes that, “Getting a new idea adopted, even when it has obvious advantages, is often very difficult. Many innovations require a lengthy period, often of many years, from the time they become available, to the time they are widely adopted. Therefore, 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:

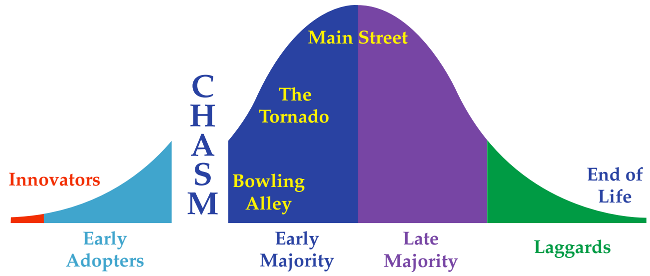
- **Relative advantage**, the extent to which it offers improvements over available tools
- **Compatibility**, its consistency with social practices and norms among its users
- **Complexity**, its ease of use or learning
- **Trialability**, the opportunity to try an innovation before committing to use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

## Crossing the Chasm

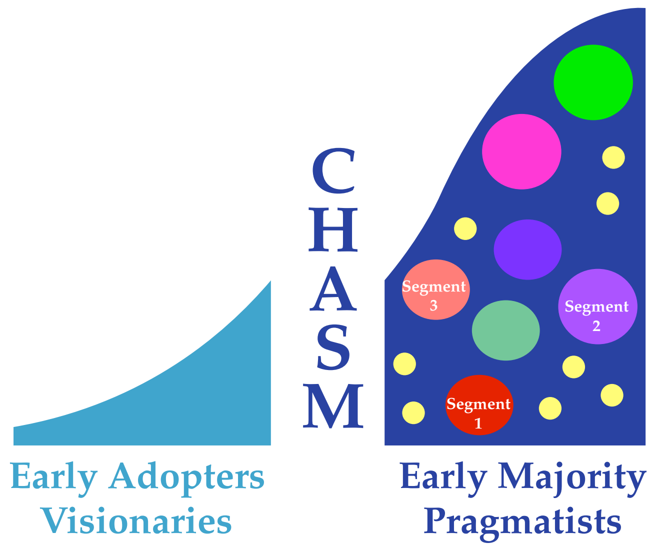
Geoffrey Moore books “Crossing the Chasm,” and “Inside the Tornado,” build upon Everett Rogers diffusion of innovation model. He observes that while the inventor can make technology work, the key question is can it be transfered?



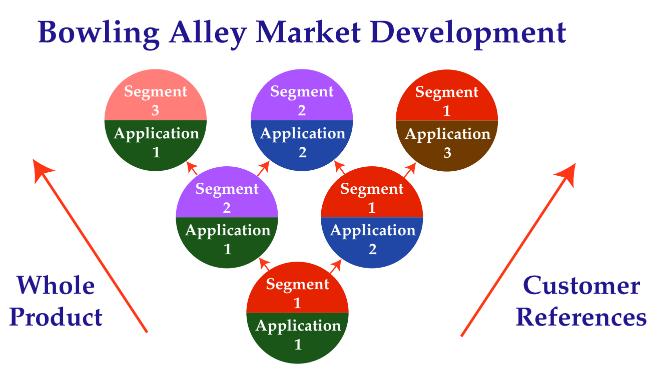

The following “Technology Adoption Life Cycle” illustration shows that technology is absorbed into any given community in stages corresponding to the psychological and social profiles of the various segments within that market.




His key insight was the concept of 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.

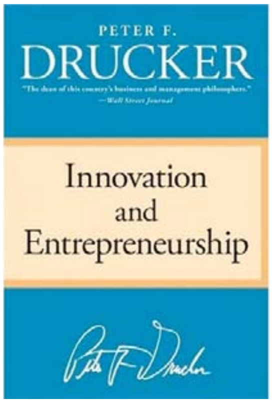



The strategy to penetrate the early majority market is to identify the many market segments it contains. The bowling ball market strategy is to provide an solution for an initial segment.




Additional applications are brought to the market to expand this segment, at the same time as the original application is targeted at other market segments.

# Innovation and Entrepreneurship




Peter Drucker's book, Innovation & Entrepreneurship is one of the most definitive works on business innovation. He states, "Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned, capable of being practiced. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they need to know and to apply the principles of successful innovation."

His innovation process is as follows:

## Prepare for Innovation

- Evaluate the life cycle of existing services and products
- Set up a systematic abandonment process
- Compute the post abandonment revenue gap
- Set up a separate organization with separate reporting line, measures, structure and sufficient resources to bridge revenue gap

## Search the 7 Innovation Sources

Look for changes that have already occurred but whose full effects have yet to be felt.

- **The Unexpected** - An unexpected success, an unexpected failure, or an unexpected outside event.
- **The Incongruous** - A discrepancy between reality and common wisdom, or between what is and what ought to be.
- **Process** - A weak link is evident in a particular process, but people work around it instead of doing something about it.
- **Industry and market changes** - An innovative product, service or business approach can be inserted when the underlying foundation of the industry or market shifts.
- **Demographic changes** in the population's size, age structure, composition, employment, level of education, or income
- **Changes in perception, mood and meaning** - Innovative opportunities can develop when a society's general assumptions, attitudes and beliefs change.
- **New Knowledge** - Advances in scientific and nonscientific knowledge can create new products and new markets.

## Analysis of Resultant Opportunities

Analyze the opportunity to see if people will be interested in using the innovation:

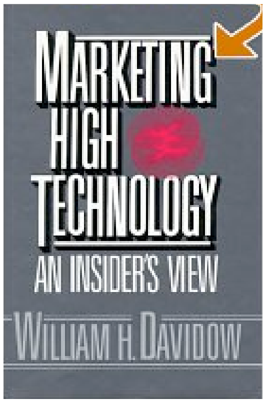
- Does it create new utility for customers?
- Is the price related to the value to the customer, as opposed to the cost to produce it?
- Does it respond to unmet customer realities / needs / problems?
- Does it deliver attributes valued by the customer?
- Can it be brought to the market quickly?
- Is it simple and focused? Does it do one thing, and satisfy one need?
- Can you obtain a leadership position in the market or niche quickly?
- Not too far ahead of the market, or too clever?
- Is it consistent with organization's strengths, customer focused, and not too diverse?

## Exploit the Opportunities

Effective innovations start small. By appealing to a small, limited market, a product or service requires little money and few people to produce and sell it. As the market grows, the company has time to fine-tune its processes and stay ahead of the emerging competition.

- Conduct small scale pilot tests
- Commercialize in stages
- Provide adequate resources
- Evaluate & measure success

# Marketing High Technology




As a general partner of Mohr Davidow Ventures, William Davidow wrote *Marketing High Technology*[2]. He observes that the strategic principal of marketing is that "Marketing must invent complete products and drive them to commending positions in defensible market segments." 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.

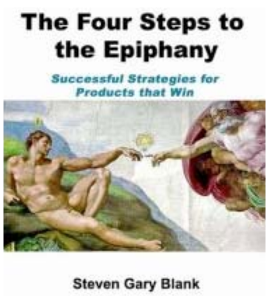
He notes the need to achieve critical mass as having its origins in the classic work by the Boston Consulting Group in 1968 on Perspectives on Experience. They observed that in a rapidly growing product area, if you can't segment the market into a sufficiently isolated segment which can be dominated, you need to withdrawal from the market. Typically most markets only have two to three consistently profitable suppliers. Thus a company needs to obtain at least 1/6th share of a niche to survive, and when 1/3rd has been achieved, it cannot normally be dislodged.

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

A startup by focusing on a specific market segment is able to have leaner, tighter product family. Its sales force can operate with greater efficiency than the sales force of a broad-line competitor. Vertical marketing and promotions are more cost-effective and productive than horizontal efforts. *(This is the Crossing the Chasm / Bowling Alley scenario subsequently described by Geoffrey Moore)*.

[2] He is also the co-author of *Total Customer Service* and *The Virtual Corporation*.

# Building a Organization




The path to disaster for many startups has been based upon a product development model. In his seminar book, *Four Steps to the Epiphany*[3], Steve Blank provides a systematic, step-by-step roadmap on how to successfully organize sales, marketing and business development for a new product or company with an emphasis on high technology startup companies.

The key to startup success is the ***customer development model*** used to discover and cultivate paying customers. It consists of four stages: customer discovery, customer validation, customer creation, and company building.

## Customer Discovery — Chapter 3

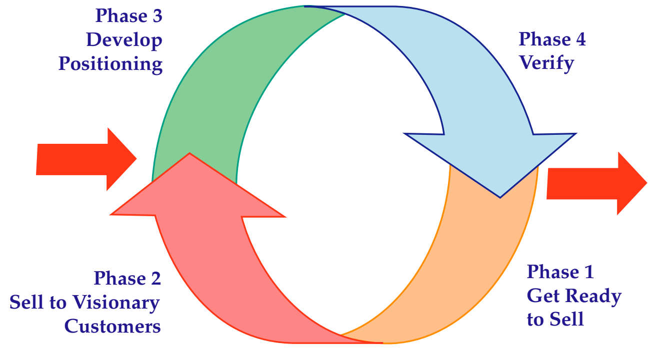
Where is our market? Who are our customers? How do we build the right team? How do we scale sales?

- Board / team buy-in
- Startup hypothesis
- Testing the problem and product concept
- Customer development team
- Customer needs vs. product features
- Understanding the customer
- Testing market type
- Market type selection
- Operating model

The CEO has to sell; engaged with learning curve

## Customer Validation — Chapter 4

- Early evangelist
- Sales to early customers
- Product and company positioning
- Testing the financial model

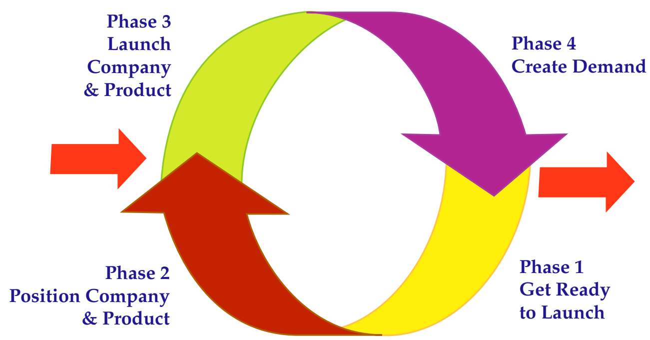



- Three levels of buyers needs, solution selling tools
- Positioning your product

## Customer Creation — Chapter 5

Four building blocks of customer creation.

- Customer creation versus marketing communications
- The four building blocks of customer creation
- The role of "branding"




- Company and product launch
- Company and product positioning
- Demand creation

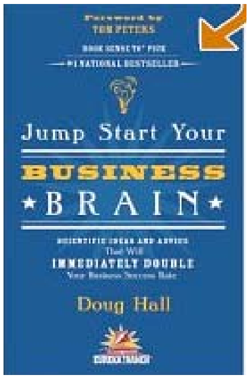
## Company Building — Chapter 6

Building a mainstream customer base by market type

- Culture wars
- Mission-centric culture
- Fast-response departments
- Growing the company

3 Four Steps to the Epiphany by Steve Blank, 2005, CafePress

# Jump Start Your Business Brain

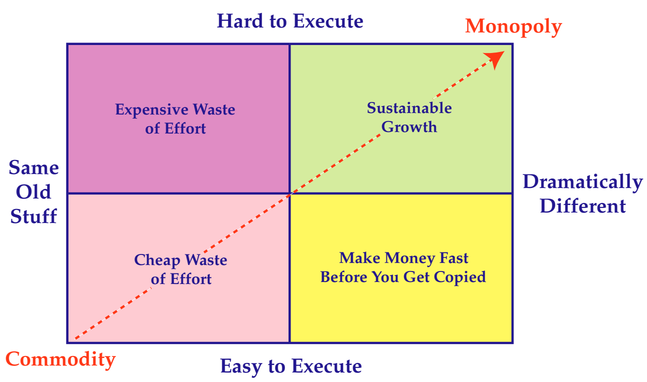



In *Jump Start Your Business Brain*, Doug Hall observes that, "Business success is not random. There are patterns in the universe of business. There are reproducible scientific lessons and laws that, when applied with diligence, can help you win more, lose less, and make more money with your new products, services, sales, and advertising efforts."

He 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?

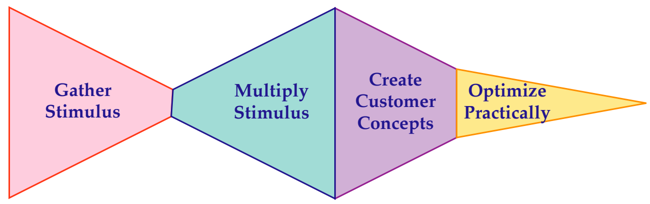
Ideas with a dramatic difference have a much greater chance of obtaining sustainable growth success.



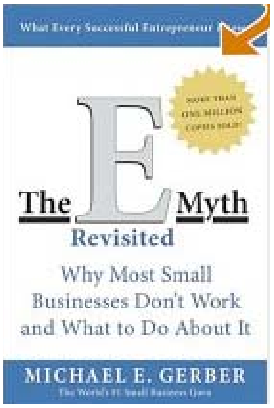

What this means to marketing is expressed as the ***The Three Laws of Capitalist Creativity*** for the Product Team:

- **Explore stimuli** - as the number and sources of different first-person new and unfamiliar stimuli increase, so will the number of creative ideas increase as you gain new experiences and perspectives, and stretch your mind.
- **Leverage diversity** - seek the ideas, opinions and judgments of people with diverse perspectives to add richness and perspective to your ideas. You have to view your ideas through the eyes and viewpoints of other people.
- **Face fears** - your potential to achieve is limited only by the level of your fears. Often we are afraid to articulate ideas for the fear of failure, of being laughed at, being politically incorrect, or being thought stupid. We may be afraid of the unknown or of change. This is particularly true when things are going badly.

The four stages of creativity when using stimuli are to first gather stimuli, than to multiply them, test them against customer concepts, than finally to translate the remaining ideas into practical concepts.



# Why Small Businesses Fail

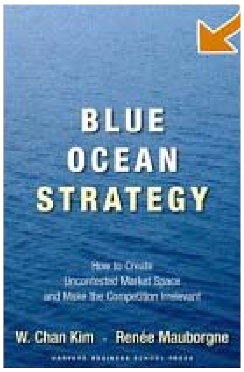



Why do so many small businesses fail? In his book, *The E Myth Revisited* (entrepreneurial myth), Michael Gerber, a small business guru, observes that the survival of a small business is more than just luck, brains, or perseverance; it requires taking a different approach.

Most small businesses are started by people who are skilled at something and who enjoy doing that thing. They try to do the work of the business, rather than learning how to run the business. By failing to balance their business personalities with also being an entrepreneur and manager, they soon find themselves overworked, understaffed, and eventually broke. By acting as a manager, they make sure operations and finances run smoothly and consistently. As an entrepreneur (their most important task), they formulates goals for the business, and steer the business in the direction needed to reach those goals.

He notes that the reason why franchises tend to be more successful than new small businesses is that they have a proven business model that enables any unskilled person to buy a franchise, run all of the operations in it, and have a good chance of success.

# Blue Ocean Strategy



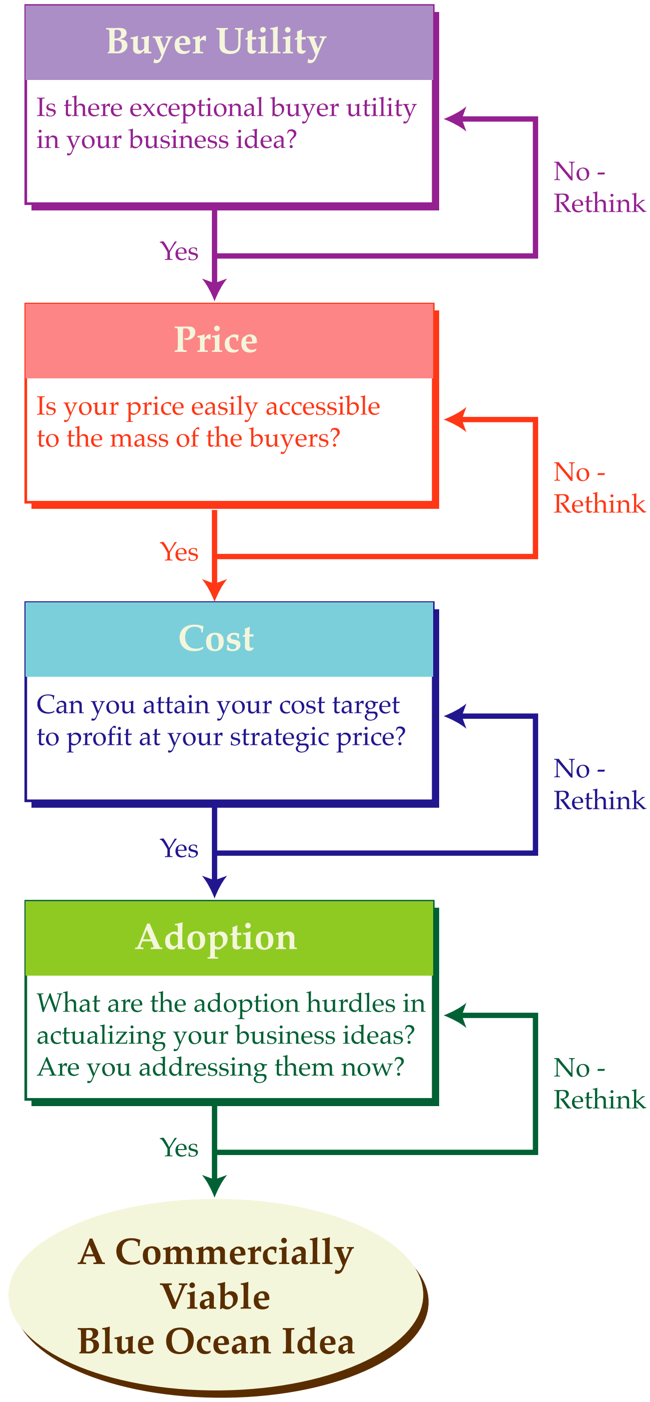

W. Chan Kim and Renee Mauborgne are professors at France's INSEAD, the second largest business school in the world. They have published numerous papers on *Value Innovation* in the Harvard Business Review. In their first value innovation book, *Blue Ocean Strategy*, they define a blue ocean as when you have an unique product being sold into an uncontested, unknown market space *(what Bill Hewlett used to call an "undefended hill")*, as opposed to a red ocean in which you are competing with many others in bloody competition with commodity products in a known market space.

They cite the following companies as examples of companies with blue ocean strategies:

- **Dell** — mass production of computers sold directly to consumers per each customer's specifications
- **Body Shop**— functional cosmetics.
- **Callaway Golf** — the large head "Big Bertha" golf club attracted new customers to golf that had been frustrated by the difficulty of hitting the ball.
- **Casella Wines** — Yellow Tail wine eliminated complexity, elitism and consumer confusion by creating a fun, simple image that non-wine drinkers could enjoy.
- **NetJets** — convenience and speed of private jet with a lower fixed cost and the low variable cost of commercial airline travel.
- **Southwest Airlines** — offering the speed of air travel with the low cost and flexibility of driving.
- **Starbucks** — congenial environment within which to socialize, go online, or read while consuming coffee.

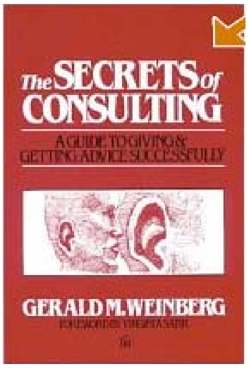
These companies innovated by pursing strategies that freed them from industry boundaries, as opposed to using a new technology. Their mantra is to "Do Something Different" by seeking under-served or undesirable customers, instead of trying to beat the competition across the board.

They advocate subtracting features that don't add value and improving those that do, while adding one or two new features or aspects, in order to achieve superior utility, price, and cost positions. In this manner, a company can create and capture new demand.




The process of determining a blue ocean strategy is shown in the above illustration.

# Secrets of Consulting




Do you work in a team? Are you ever asked to give advice? How should you react to a demanding client in a business development situation? Gerald Weinberg in *The Secrets of Consulting*, provides simple, memorable anecdotes that are insightful, relevant, real life, and entertaining, providing tremendous advice and wisdom that almost anyone can benefit from.

Here some examples from the book:

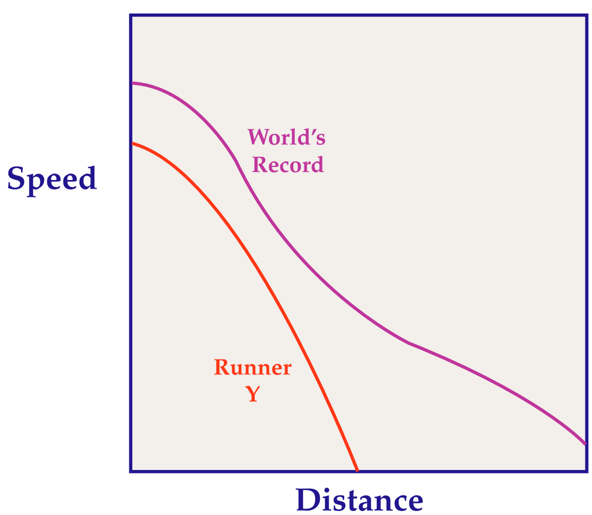
**The Hard Law** - If you can't accept failure, you'll never succeed. *In our experience, success is savored most when the chances of dismal failure were the greatest.*

**The Harder Law** or Rudy's Rutabaga Rule - after you eliminate your number one problem, number two gets a promotion.

**The Hardest Law** - Helping myself is even harder than helping others.

As Michael Jackson's song, *Man in the Mirror* says, "I'm gonna make a change for once in my life. .... I'm starting with the man in the mirror, I'm asking him to change his ways."

**Moving in one direction incurs cost in another** - when you optimize one thing, it causes you to make a tradeoff on another. If you optimize for distance, you don't get maximum speed. Success requires being able to juggle simultaneous tradeoffs.

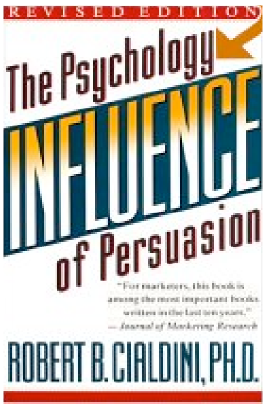



**The Level Law** - Effective problem solvers may have many problems, but rarely have a single, dominant problem. Counter-wise, when someone has a massive problem, it is a sign that they are not effective in solving problems.

**The Rule of Three** - If you can't think of three things that might go wrong with your plans, then there is something wrong with your thinking.

**Putting Your Own Money Where Your Mouth Is Test** - Would you place your life / money in the hands of this system? How much money are you willing to bet that a program is bug free?

# The Psychology of Persuasion




Robert Cialdini is a professor at Arizona State University who has studied the ethical business applications of the science of influence.

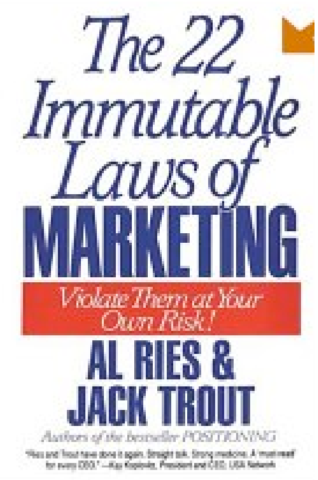
Although we are capable of independent thought, we act on automatic pilot for the most part, to allow our conscious mind to focus. As a result, we can be easily manipulated by our desire to be and appear to be, consistent with our past actions and statements, swayed by what the crowd is doing, and various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

He cites six universal principals:

- **Reciprocation** — we try to repay, in kind, what another person has given us.
- **Commitment and Consistency** — once we have made a choice, we try to behave consistently with that commitment.
- **Social Proof** — one means we use to determine what is correct is to find out what other people think is correct.
- **Liking** — we prefer saying yes to someone we know and like. In particular, we like people with attractive appearance, who are similar to us, that compliment us,
- **Authority** — we have a deep seated sense of duty to authority. We are trained from birth that obedience to proper authority is right, and disobedience is wrong.
- **Scarcity** — opportunities seem more valuable to us when their availability is limited.

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

# Marketing Basics




Al Ries and Jack Trout have written several popular marketing books. In their classic marketing work, *The 22 Immutable Laws of Marketing*, they provide 22 basic laws of common sense marketing that are all too often forgotten.

While there are some redundancies across the laws, and possible counter-arguments against them; with respect to startups, here are some of the most commonly cited rules:

**The Law of Perception — Marketing is not a battle of products, it's a battle of perceptions**

We are deceived into focusing on the facts of a product from a belief in objective reality, when actually it is our perception of the product that matters, i.e. we believe what we want to believe, or on someone else's perception of reality.

**The Law of Perspective — Marketing efforts take place over an extended period of time.**

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.

**The Law of the Category — If you can't be first in a category, set up a new category you can be first in.**

Being the first in a sub-category helps you get into the prospect's mind. Examples are Miller Lite with the first domestic light, Michelob, the first high-priced imported beer, Amstel Light, the first imported light beer, Charles Schwab, the first discount broker.

**The Law of the Mind — It's better to be first in the mind than to be first in the marketplace.**

You want 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.

**The Law of Exclusivity — Two companies cannot own the same word in the prospect's mind.**

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

**The Law of Acceleration — Successful programs are not built on fads, they're built on trends.**

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.