No-Cost Marketing for Start-Ups

Presentation Notes

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At the outset, I would like to thank The Indus Entrepreneur for the opportunity to participate in this conference. The theme of this conference- "marketing for entrepreneurs" - is very important to the success of any venture and I am honored that you are here for my presentation.

I am a consultant and I focus on marketing strategies and management at technology firms. I am based in Houston, Texas and it should come as no surprise that a majority of my clients are in Texas, with some in Canada and California. My clients range from Fortune 200 companies to start-ups and venture capital firms. Today's presentation is based upon my experience with start-ups.

When I am engaged by a start-up, being human, I carry with me certain preconceived notions and prejudices.

First, in almost all situations, the product concept is already set. Entrepreneurs have typically recognized an opportunity around a product, device or service and the entire venture is built around this concept.

Second, founders of start-ups are the most enthusiastic people you can meet. Their beliefs are stronger than any evangelical preacher on a Sunday. Sometimes, they come pretty close to being seen as charlatans but that really isn't true. Entrepreneurs' live so much in their own world of possibilities that sometimes, the realities of the business world escape them.

Third is consequence of the second. Growth projections are ambitious and sometimes unbelievable. They seem like the proverbial pot of gold at the end of the rainbow. But, in the entrepreneurs mind, they are very achievable.

However, the oil that greases the skids of growth; the fuel that revs the engines of growth is cash and almost all start-ups are cash poor. Cash flow is the root of the success and failure of most entrepreneurial ventures and there are several sources of cash. But, one stands out! The most reliable, long term source is one who has 100% ownership in your company but has zero equity. It sounds like a paradox but isn't. There is a source of cash that is ideal and that's is the customer. You provide products and services that meet their demand and in return you get paid cash. The question is- how to create the momentum to tap this best of all cash machines?

It is like the proverbial chicken and egg - which comes first? - syndrome. It is the general perception that you need cash to create market pull that then sets the juggernaut of cash flow into motion. The dilemma- how do start-ups create market demand and open this faucet of future cash with limited short-term resources?

It has been my experience that wise start-ups scale back their ambitions and create intermediate milestones along the way. They focus on intermediate goals and use resources sparingly for the biggest impact.

All entrepreneurs are smart but the successful ones use a rifle shot approach in shooting prioritized targets rather than a shotgun approach. They pick and choose their objectives and then focus their resources on selected ones - locally rather than globally.

Additionally, successful entrepreneurs recognize that there are more aspects to marketing than advertising and work on all of them.

Without going into a course on marketing, let me suggest that marketing is a mix of several activities focused on the customer. The customer has problems, wants, and needs that the vendor satisfies with a combination of products and services. Pricing is the translation of value received by the customer into profits for the enterprise. Promotion is deployed to create awareness, interest, and credibility for the vendor. And, in an ideal situation, sales and distribution picks up where promotion stopped- sales takes the sales cycle from customer interest to purchase and repurchase and repurchase - ad nauseam. Attempting to address all aspects, in depth, is very expensive. And the cash strapped entrepreneur typically prioritizes and focuses, strategizes and implements simultaneously- implementing not low cost marketing but No-Cost Marketing.

No-Cost Marketing for start-ups is like the Zen of marketing. It is all in your head. It is an attitude. It is a focused approach to marketing, deploying and directing existing resources for maximum impact. Like a marksman taking aim before letting the arrow take flight. Like most activities, a little homework helps a lot. The benefits more than compensate the effort.

Like everything else in the business world, No-Cost Marketing begins with the customer and markets. The savvy entrepreneur recognizes that the entire market cannot be addressed all at one time. Typically, there is an initial phase of frenzied activity where the entrepreneur goes and sells to anybody who will listen. But, the savvy one quickly realizes that there is a common characteristic between customers who say yes and buy, and those who say no and reject.

Delineating groups of customers who have common characteristics is segmentation. And these common threads can be demographic, psychographic, education, preferences, hobbies - you name it. No cost Marketing requires a determination of customer segments and to prioritize them in primary, secondary, and tertiary markets.

These primary, secondary, and tertiary markets are like dominos. When primary dominos fall they create momentum for secondary and tertiary dominos to fall.

Let me give you an example:

The workstation based Computer Aided Anything industry was a product of the eighties. CAD, CAM, CAE, and EDA, were being implemented and the energy industry was not far behind. The market was large, in fact huge but companies needed an appropriate starting point.

A colleague did not jump into the entire market all at once. He segmented the market by disciplines- Geophysics, geology, petrophysics. Then, stepping back recognized a significant market discontinuity that was in its infancy in one segment- 3D seismic; he believed that it was going to create a new ecosystem or a new set of unmet needs. Seismic interpretation was close to 3D seismic data, the source of this discontinuity. And sure enough, by focusing on 3D seismic interpretation, when this domino fell, it created waves that affected all associated segments. So, he rode on the coat-tails of 3D seismic and funded growth into geology, petrophysics, and so on.

This is just an oversimplified example of how a successful start-up begins at the right place- on the primary domino in the chain.

A third critical point regarding markets is that my successful clients focus on customers that they are close to. By accident or design, they play to their strengths and natural advantages like existing relationships and proximity.

Initially, pick customers that you are close to you so, you can take care of them. Or if you can't do that, move closer to them. Moving closer is an abstract term. Perhaps I should use the term be "virtually" close to the customer.

A company like BMC software developed its entire repertoire- products, sales, support, marketing on the philosophy of being close to customers except they did it by using technology- telecommunications. All their products are designed and developed so that they can be sold, demoed, distributed, and supported by telephone. The founder, Bill Moore, could not be physically close to his customers so he used technology to be closer. He built a personal net worth of more than half a billion by focusing on being close to customers.

Being closer to customers is an attitude while picking segments is the first slice of focus. However, the second slice of focus is hard to do; it is to discipline the start-up to focus on only 5% of the market. An entrepreneur is so very glued to the universal applicability of the technology that picking a subset is emotionally very hard. And, 5% seems too small a number.

Long journeys begin with small steps and the successful entrepreneur focus on innovators first. Who are these innovators? And how can you find them?

My knowledge of consumer behavior is theoretical and limited. But, I do know that innovators march to a different drummer. In business-to-business situations, innovative corporations are easily identifiable, based on their historical behavior. It is imbedded in their corporate culture and these firms show a marked propensity to change.

Every customer company is in quasi-equilibrium between creating a market pull for new products and an inertial force that restricts or limits this pull. A successful start-up focuses its attention on points that create disequilibrium between the pull for their products and the inertia in the firm.

In the upstream exploration and production market savvy entrepreneurs do not necessarily go to larger companies in the US like Exxon or Shell, as their initial customers. Yes, these are large customers but they are laggards. Mobil & Amoco in the US and international firms like ARAMCO, British Petroleum, and Broken Hill Petroleum of Australia are culturally inclined to try and accept new technologies.

A key element in this focus is that early adopters meet a major objective for a vendor- they generate cash for the short term and the long term. The short term reward is obvious- you sell, they buy, you invoice, they pay, and you take it to the bank, and you pay your much overdue bills.

The longer term impact though is far greater because they also serve as beacons that followers in the industry look up to. By association, they lend credibility and a halo effect to your venture. The followers then come on board, first in dribs and drabs and then, if the job is done well, as an avalanche.

The bottom line is that successful start-ups pick their customers carefully. They are short on time and cash, so they choose their targets carefully and aim for the bulls-eye.

There are a lot more details to the topic of pursuing the right customers. But, time is short and, with your permission let me move on to the next element of No-Cost Marketing- Product

Most start-ups believe that their products are unique and different. But are these differences important to the customer? Do you products add value? Do customers have compelling reasons to buy your product?

In every engagement, the first thing I do is to walk through a product positioning process.

Who is the product for?

What do these customers need it for?

How does the product meet these needs? There better be compelling reasons!

And how is it different from competition?

If product is different in important ways, chances are high of meeting the ambitious growth projections. However, there are two more product related issues- Quality and Speed.

Most successful start-ups deliver quality products, fast. Most successful start-ups have spent time and other resources in fixing design and manufacturing issues so that they deliver quality and their products are first out of the chute, before competition can react or even awaken from their slumber.

Being first gives you the best marketing research results that you can hope for. Customers use your products and give you instant feedback, which helps you get a leg up on your competition.

Being first also brings forward future cash flow and profits. Just like the opportunity cost of delays can be infinite, the benefits of being early can be almost infinite. Being early by a quarter can increase your cash and profits significantly, in some instances, because of the cascading effect, the impact can be several tenfold to hundred fold.

They say speed kills. Yes, it does. But, in the business world speed kills the competition.

These are but three important product related issues. Positioning, quality, and timeliness. That is just the first layer of products. Over time the device is a small part of the bundle of expectations that customers buy and the firm has to change to deliver these newer expectations. More about that during the Q&A if you are interested but it will suffice to say that the device dominates for a short time and then the compelling value being sought by customers is found in "terms and methods of sales."

Despite our best efforts, products alone don't have all the marketing answers. No-Cost Marketing also requires smart and astute pricing.

Pricing is taking the value that your customer sees in your products and turning them into profits for your enterprise. And it is also a function of the number of alternatives in the marketplace. Yes, we are all very proud of the value our products and services contribute to an enterprise. However, the biggest issue I have confronted is an unrealistic perception of value on the part of entrepreneurs. This lack of realism goes both ways. Sometimes, prices are way too high and sometimes, way too low.

The ones who are too high inch their way down thanks to competitive alternatives. But, the ones who are too low are stuck for a long time because the forces against raising prices are phenomenal, and are mostly internal to the start-up organizations. These low-price entrepreneurs leave money on the table unless they are discounting to increase market demand, which brings me to the next point.

Don't discount to increase market demand unless you are a significantly late entrant. Its great to have a discounting schedule for volume purchases but unless you are pursuing a low-cost producer strategy, don't assume that lowering prices will increase demand. If you focus on customers and recognize the inertial forces, it will be obvious that these are very strong and pricing is one of the later factors considered in the purchase decision.

The first question asked is: Will the product do what I want it to do? Then the question: at what cost? will be asked almost in parallel with: When will the product be available or be delivered?

One of my clients, an application software company, is a late entrant in a market. Customers had very compelling reasons to buy their products and there was real differentiation from competition. However, they were convinced that their major advantage was price because they cost less than half of competition. They believed their success was because of low pricing.

When I talked with their customers, I found that pricing was not the reason for purchase. It was the central product related issues- does the product do what I want it to do? - that drove the purchasing decision. The answer was a resounding yes not only for the software but for support and service and maintenance and all the other factors that are important to purchasers of software. They were also close to customers.

We repositioned the product and the company, raised prices and, lo and behold, large companies who doubted the long term viability of this firm began to buy its products and it went on to increase its revenues and market share significantly. And they lived happily ever after- for about two quarters, when competition began a significant attempt to dislodge them.

In this instance a low price was not their claim to success, and for years they left money on the table and lost customers because of a bad pricing decision. Pricing decisions need to be made with due consideration to other issues in the marketing mix to assure long term viability, and success of the start-up.

Then comes the company push. Or sales. Volumes have been written about the subject but let me focus and highlight one issue.

It is my experience that founders are usually the best salespeople for technology companies. Yes, some of them need training but founders are fast learners. They understand and often convey an entire range of issues that are important to the customer, in a language that customers comprehend. They create a sense of trust that customers appreciate and their enthusiasm for their products is contagious. Also, the selling process is full of trade-offs and compromises and the smart founder has control over the variables. They recognize the opportunity, benefits, and costs, and can make commitments that the enterprise can back-up and support.

If a start-up has selected its customers right, the use of a founder's resources in the pursuit of focused sales, pays very rich dividends. It keeps founders very close to customers and they can feel the pulse of evolving and changing customer needs.

These sales in initial customer accounts are followed up with great service, support and training.

Focus on a few customers who will become zealots for your products. These champions are on the customer side of the divide between us and them- between the vendor and the user. They are perceived to be "unbiased" and they don't charge anything except attention. These champions are seen as "neutral" and when they support you, they act on your behalf and create sales opportunities and also barriers to competition.

I can go on forever about focusing on champions and supporting them. The benefits are numerous in creating stakeholders within customer companies. But, most important, they assure repeat sales and also act as spokespeople in your effort to create credibility for your start-up. They become one of the most important elements in your marketing communications efforts.

Most start-ups focus only on products but what a customer buys is a solution to a problem. The customer evaluates all aspects of a vendor, of which the product is only one part. Credibility of a vendor is the biggest issue that a start-up lacks; and it helps to focus marketing communications on enhancing the credibility of the firm.

No-Cost Marketing uses the cheapest, neutral sources you can find to promote evidence of success. Here again choosing the right customers that laggards will follow is the key to success. Your customer champions should be on prosceniums, at lecterns and podiums or any other soap box to talk about your products. The higher the visibility and credibility of the person, the better.

Also, use the media- they are always short on case studies and success stories- feed them. Industry analysts are in the same situation- feed them with evidence of success. It is important to cultivate them because when you go public, they are right there by your side, supporting you.

Every firm you work with in delivering solutions to customers, like business partners, are usually helpful in promoting you, your firm and its image as a credible vendor. It is in their self-interest to do so. So, focus again on enhancing your image- its okay to drop names of Fortune 500 companies or movie companies as your customers. God knows that wouldn't consider you, unless you were good!

No-Cost Marketing is not about not spending money. It is about being smart, being focused, and being clear about every objective regarding every element of the marketing mix. It is about not wasting resources, and being very specific about how they are deployed. It is about leveraging every action for maximum impact.

It starts with customers and ends with customers; competition is only a constraint, albeit a significant one, that keeps us honest. I have always believed that if you take care of customers, they'll take care of you in very rewarding ways. And start-ups have to do their part on all fronts: products, services, support, training, pricing, sales, distribution, and communications.

No-Cost Marketing is about Smart Marketing.