

The nitty gritty of marketing and sales

Begin by understanding your customers' needs and wants, not by focusing on what you want them to buy.

By the time you have chosen the products to launch your new business (see *Laser Focus World*, September 1995, p. 75), you have probably also chosen the market you want to target and have decided how to position the company. In this article, I cover the nitty gritty of what people do in marketing and sales — that is, how to get the word out to your potential customers, make them think of you and contact you, convince them to buy, and keep them happy afterward so they will come back again and again.

Ultimately, a business exists to serve customers with the right products, to create a relationship with them, and to keep them happy with every aspect of that relationship. A professor at the Harvard Business School coined the phrase “staple yourself to an order” to help companies think through every facet of the customer’s experience from the customer’s point of view — calling the company to get information, placing the order, receiving the product, getting service, and ultimately thinking of the company again for the next purchase.¹ By so doing, you begin to understand who the decision-makers are and what is important to them. You then focus everything you do on them.

So you want to consider marketing as your company’s Customer Advocate Department. Marketing people start by thinking from the outside: what customers need and want, how to differentiate the product from what other companies offer, what alternative solutions are available to customers, and so on. Operations people start by thinking from the inside: what the company can realistically do with

its available resources and capabilities. In a healthy company, everyone puts serving customers well first, but the marketing/operations dichotomy provides a positive tension to help people come up with optimum solutions.

Building your company’s image

The phrase “Image is reality” clearly applies to the concept of marketing your business. It’s important to understand and decide on the image you want to create, then do everything possible to maintain and reinforce that

bered. Singer now does a booming business capitalizing on its image in Eastern Europe and China, selling not only sewing machines but also household appliances like refrigerators and washing machines.

People buy intelligently. Big companies often make the mistake of trying to “push” new products onto the consumer by creating a demand. That strategy is expensive, and it rarely succeeds if the product is inferior. It’s far more efficient to respond to market pull, which you can think of as the natural in-

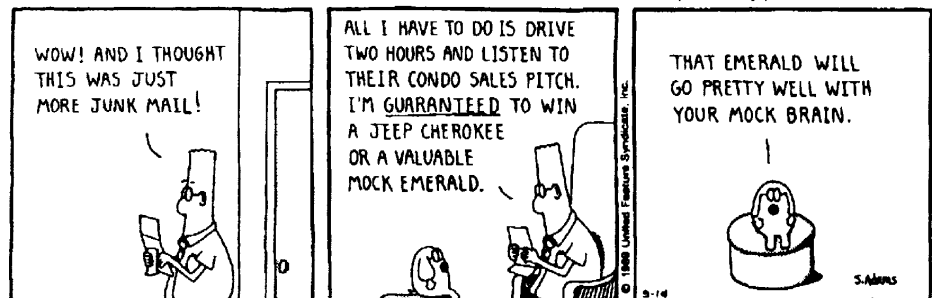


image. Your image reflects the aggregate of all the things you do. For years, I considered one famous fast-food chain as a place to get a wholesome meal for the family, then I heard that they used tallow to make their French fries crisp. That experience totally destroyed the image that earned my trust, and I haven’t eaten there since.

In our industry, we tend to focus on technical performance. New Focus decided to go with “simply better” as our image, and we have done everything possible to make sure every product offers an advantage, either in performance or in price, in order not to betray that trust.

It’s impossible to overemphasize the importance of your company’s image. Singer, the sewing machine company, was purchased out of bankruptcy for very little money several years back. It turns out that, in Eastern Bloc countries, Singer had a big reputation for reliable products, and people remem-

clination or flow of the customers’ decision-making processes. You take advantage of this pull by understanding customers’ needs and wants rather than focusing on what you want them to buy. Needs are easily understood by potential customers, so you educate and convince them that your product can serve their needs better than what is available. It’s always easier to sell an improvement than a totally new anything.

Estimating the market size

When your company is small, market size is not an important factor. Eventually you will need to understand the size of each product opportunity in order to select your product options intelligently. You can estimate market size on the basis of industry statistics and financial data. Your business-school librarian can get you started with readily available databases, and you can even call up public companies for annual reports. This top-down method works

well for consumer products because people's buying behavior is statistical.

For most scientific products, you can get a good estimate just by talking to a few knowledgeable people. In addition to leaders of the field who would use your product, you can talk to magazine editors, professional-society staff and volunteers, and marketing and business people. Once you start the investigation, people will refer you to other sources of ideas. Your questions will become more specific as you develop insights and begin to understand the nuances of what customers need.

When we started Euphonix, a company that makes audio mixers for professional recording studios, our product offered substantial advantages over the competition because it's computerized, compact, and less expensive. We estimated the size of the market by finding out the sales figures of existing companies. In effect, we were saying a mixer is a mixer. We were far off the mark, however, because the people in broadcasting, live stage, movie post-production, and studio recording all had different requirements for software, even for physical size. Studios that rent space preferred large consoles to impress their customers, but performing artists building home studios wanted compact systems that blend-in with their furniture. To get the right answers about the size of the market for a specific product, we had to learn to ask the right questions. That process of distinguishing between different types of customers is known as market segmentation.

Gear up your business to meet a market demand that is smaller than you estimated. That strategy makes you conservative, but it's better than running out of money by overexpansion. One common mistake is to ramp up the business to meet a demand that you forecast by extrapolating from early sales results.

Your first customers are invariably early adapters and the opinion leaders you targeted. You can expect the rate of sales growth to drop after the initial rise because it takes time to get the word out and convince the rest of the community to become customers. Geoffrey Moore refers to this phenomenon as the chasm, in his book *Crossing the chasm*.²

Pricing your product

It's difficult to put a price on a product that's totally unique. I hear that when art galleries introduce new artists, they price low and increase the prices periodically until the objects stop selling. Because each work of art is unique, direct comparisons are hard to establish. But in our industry, customers can usually find comparable products, so they can opt for alternatives or forego certain features if the pricing is too outlandish. Put yourself in the customer's shoes again and do comparison shopping. You can also try out different prices to get a reaction before settling on a price. Ultimately, you want the customers to feel they had a fair shake.

The lowest price at which you can sell your product is based on the "cost of goods sold," which includes direct material and labor costs plus manufac-

turing overhead. As a rule of thumb, you should price a technical product at twice your cost of goods sold to stay healthy and grow the business. For instruments, the cost of goods should be about 30% of the selling price (that is, the gross margin should be 70%) to cover the additional costs of selling and services. For OEM products, you can build a successful business with a gross margin as small as 30%.

That sounds simple enough. The problem is that small companies generally don't know what their real costs are. They don't know how to allocate overhead or to track expenses accurately. For example, you put in heroic hours in the beginning to get the job done, but you can't expect the people you hire to do the same. Make sure to base your cost calculation on the assumption of a 40-hour week.

Business considerations can have a lot

Spreading the word

There are many ways to tell people about your Products, and many of them are free to you. The key is to focus on opinion leaders who are both likely to buy and capable of influencing other people.

In our industry, technical societies are set up to disseminate information. So is the technical press. You can present papers, write articles, and distribute news releases. Eye-catching photographs or diagrams will make your material stand out. I've seen people passing out data sheets at conferences where there's a concentration of people that count. Beyond that, you can contact people by direct mail. Magazines and technical societies will rent you their mailing lists — mailing labels cost about ten cents per name selected from the relevant field. You can send out a small mailing to sample the response before investing in a large mailing.

Media advertising

Assuming you decided the most cost-effective way to reach your customers is by advertising in magazines, you can maximize your results by targeting the relevant opinion Leaders in one or two magazines to start. *Business Marketing* magazine lists 10 criteria for successful busi-

ness and industrial advertising:

1. It has visual magnetism
2. It selects the right audience
3. It invites the reader into the scene
4. It promotes a reward
5. It backs up the promise
6. It has a logical sequence
7. it speaks person to person
8. It is easy to read
9. It emphasizes the service (benefits), not the source
10. It reflects the company's character

At New Focus our engineers participate in producing the ads, We keep our ads simple and make sure they convey quality to be consistent with our motto of "simply better." We also make sure each ad offers some useful information as a fair exchange for our customers' valuable time.

My all-time favorite is a Rockport shoe ad that made its point with a simple heading — something like "I ran the New York Marathon in my Dressports." The ad showed a pathetic-looking guy in running shorts wearing a pair of leather shoes, and it convinced me that these shoes could solve my tired-sole problem at trade shows. I've been wearing Dressports ever since.

to do with prices. Federal Express didn't lower its prices when the US Postal Service introduced next-day service because it knew that its customers use FedEx for assurance of on-time delivery. New Focus provides an opposite example — we priced our tunable laser-, very low to discourage competitors from entering the market because we know our costs will come down as we go up the learning curve.

Another important concept in pricing is price/volume elasticity, that is, how much you can increase the sales volume by decreasing the price. About ten years ago, Uniphase slashed the price of HeNe lasers to meet the cost goals of hand-held scanners, then invested to reduce production costs and make it a profitable business. You want to estimate the elasticity to maximize the total profit over the duration of the product life. In our field, people buy a product because they need it more than they want it, so the price/volume curve is less steep for industrial than for consumer products.

In many countries, people expect discounts as a business lubricant. Some companies in our industry also play games with prices in order to make sales. At New Focus, we don't think it's fair to treat people differently, but we don't think we lose too many sales by not giving discounts. By treating everyone the same, we keep our business simple, which ultimately results in lower prices for everyone.

Selling at home and abroad

Think of sales as the process of getting the customer to say yes. In their book about the fundamental principles of negotiation, Roger Fisher and William Ury emphasize that negotiators should not take positions, but instead focus on understanding the goals of each party, then creatively search for ways to satisfy these goals.³ Good salespeople are therefore good listeners. They're fast on their feet and adept at coming up with creative interpretations. They also tend to have an interest in understanding people and what they do.

Customers are risk averse. They don't want to spend money to make a mistake. Sometimes they avoid buying a new product because they don't want to look stupid when someone asks them how it works. Remember, people want to be proud of their de-

isions and to have something to talk about. If you wish to be a good salesperson, do everything possible to put yourself in the customer's shoes.

One sales representative at Iris Medical Instruments consistently outsells others by a factor of three. When I asked for his secret, he replied, "Ask for the order." Sometimes you'll find that a buyer is waiting to be asked because a decision will bring a sense of relief. Good salespeople stay in close contact with all their customers and know where they stand. And good salespeople can usually make good sales projections.

Your distribution channel, the way you get your product into customers' hands, is an important strategic issue because it can significantly impact your cost structure and the way you interact with customers. Most companies in our industry sell to their domestic customers factory direct. Some companies employ local distribution agents (sales representatives who run their own companies) to call on customers when the product requires a local presence to sell or service the product. The rationale is that a customer enjoys one-stop shopping where a salesperson can take orders for ten or more companies at the same time. In recent years, we've seen a trend in which retired technical people create a business to represent two or three companies in a region near their home. If you deal with them, you pay a commission, 15% or so, to avoid the cost of calling on a customer yourself. It's an effective and inexpensive way to have knowledgeable local representation.

Most companies in our industry use sales reps overseas. In most cases, these are exclusive arrangements. You send all the customer inquiries in a given country to them, and they take care of the rest, charging whatever price they see fit. These arrangements, however, have often worked out to the detriment of the US company.

To represent you properly to a customer, a rep must understand your product and your company thoroughly. So a successful relationship takes investment on both sides at a time when the company and its products are both evolving rapidly. Unless everyone involved makes a significant commitment, including the salesperson who calls on customers on your behalf, the working relationship will suffer — the

reps may become not much more than high-cost order-takers preoccupied with keeping you away from "their" customers to gain control of the situation.

New Focus took a different tack. We sell factory direct in every country except Japan, where it's customary to buy through reps. Above all, Mr. Maruyama, our rep at Indeco in Japan, is someone I have trusted and worked with for 25 years. In Europe, customer feedback to our direct approach has been overwhelmingly positive. They learn of our products by reading our ads and catalogs, and they communicate efficiently with us electronically when they need sales or service information. We probably could have achieved a deeper penetration with reps — approximately 40% of our sales are overseas, whereas 50% is typical in our industry. But our customers are paying significantly less because they can buy from us directly.

A personal note

When business develops more slowly than expected, people in marketing and sales tend to be the first to take the blame. It's important to remember that a good marketing and sales program is a necessary but insufficient condition for a successful business. If sales are slow, the market may very well be telling you something. Then it's time to listen hard and review your products and the way you do business. Ultimately, you have no reason to exist if you cannot serve your customers particularly well.

All of us are selling our skills and services. When funds dry up or we run into career difficulties, we may need to re-deploy our underlying strengths and capabilities. Money and jobs are out there, really! We'll emerge stronger, but perhaps serving a different set of "customer" needs. With that philosophy, our options are unlimited. □

REFERENCES

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