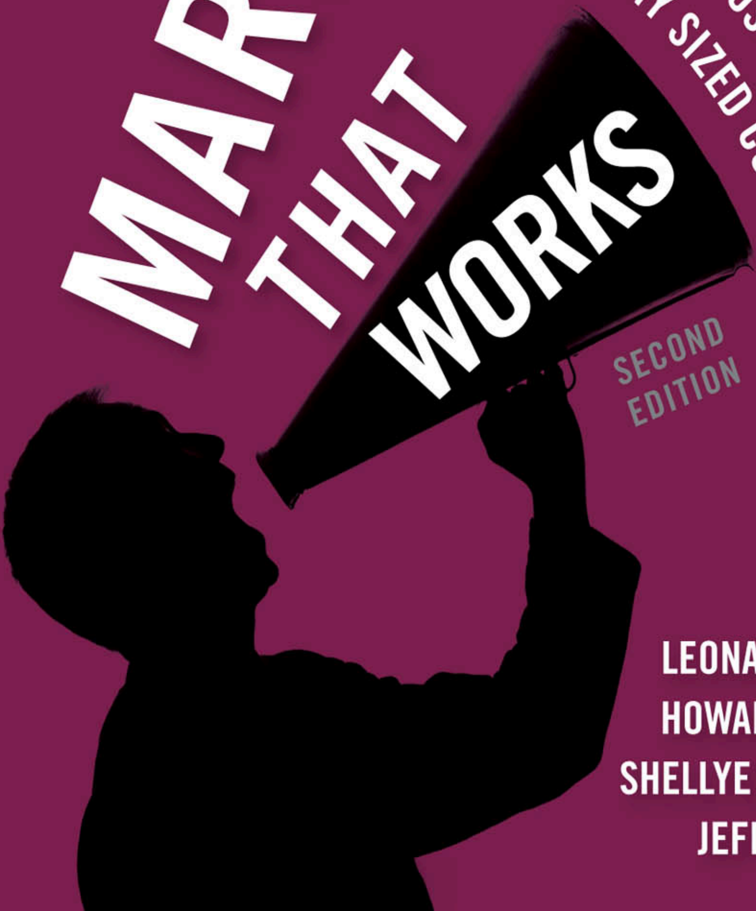
MARKETING THAT WORKS

HOW ENTREPRENEURIAL MARKETING CAN ADD SUSTAINABLE VALUE TO ANY SIZED COMPANY

SECOND EDITION



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Second Edition

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Second Edition

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The authors dedicate this book
to our best venture partners:
our spouses who have supported us in so many
ways for over 150 years of happily married life—
Susan Lodish for 50 years,
Eleanor Morgan for 48 years,
Scotty Scott for 31 years,
and Kathy Babin for 22 years.
We love you.

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Contents

Acknowledgments

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About the Authors

Leonard M. Lodish, Ph.D., is Samuel R. Harrell Professor Emeritus of Marketing at The Wharton School. He is cofounder and Leader of Wharton's Global Consulting Practicum, and innovator of Wharton's MBA Entrepreneurial Marketing course. His research focuses on marketing decision support systems, marketing experimentation, and entrepreneurial marketing. As an active venture advisor and investor, Len was the first outside board member and helped raise the first investments for Quidsi.com (diapers.com) and Milo.com, and other very successful ventures. He is a cofounder of Musketeer Capital and advisor to a number of venture funds.

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Shellye Archambeau is CEO of MetricStream, Inc., a recognized global leader in Governance, Risk, and Compliance. She also serves on the boards of directors for Verizon Communications and Nordstrom. She previously served as CMO and EVP of Sales for Loudcloud, Inc., responsible for all global sales and marketing activities. There, she led Loudcloud's transformation into an enterprisefocused company while growing sales by 50% year over year. As President of Blockbuster, Inc.'s e-commerce division, she was recognized by *Internet World* as one of the nation's Top 25 click-and-mortar executives.

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For more information about Marketing That Works, visit www.marketingthatworksbook.com.

Introduction

The Book's Mission

Truly successful businesses over the long term have achieved greater-than-market levels of profit return to their investors because they have been able to somehow insulate themselves from competitive pressures. If a company cannot insulate itself from competitors, it becomes doomed to market-level rates of return as competitive forces continually attack its profit margins and revenue sources. In this book, we show how entrepreneurial marketing can help firms both large and small to differentiate themselves and insulate themselves from some competitive pressures. The entrepreneurial marketing techniques, concepts, methods, and paradigms we provide will help your venture make more money—extraordinary money—on a sustainable basis. Not only will you be able to position your product/service offering to leverage your firm's distinctive competencies and potential sustainable competitive advantages, but the way you do marketing will make you more efficient than your competition as well.

Marketing, more than technology, is most often the reason for the success or failure of new ventures or new initiatives of mature corporations. Yet there are few detailed guides, and fewer serious studies, on what does and does not work when dealing with these situations. This book is designed to help marketers make the best use of their time, money, and effort in growing their businesses in a way that gives them some competitively sustainable differential advantage. The book is itself the product of cost-effective, entrepreneurial marketing thinking. There is a target market that has a need for help that we hope to provide. We have seen no books that combine conceptually sound marketing concepts and paradigms with practical guidance on how to apply them in real situations in order to leverage the resources used for marketing and attain sustainable competitive advantage.

This book has a very pragmatic objective. We are not trying to deliver a complete compendium on marketing or on entrepreneurship or intrapreneurship (entrepreneurship within a larger corporation). We cover only marketing concepts, methods, tactics, and strategies that “work”—that is, can add value to real ventures regardless of the ongoing changes in technology and economy. We have been guided in our thinking, not only by our academic research and practical experience with dozens of companies, but also by studying what the most successful companies (as well as those that do not perform as well) are doing to create sustainable competitive advantage. These results provide new insights into what types of marketing programs and channels are most effective in diverse business settings.

You, our target reader, are someone who needs to get results quickly, and has limited financial resources and people resources—you are someone who often does not have any staff to help with speculative research or analysis. Although some bigger, older companies may have the luxury of waiting for longer-term impact of their marketing and sales strategies, the company we write for has to worry about the short term. Like it or not, for many managers today, and for all start-up firms, without a short-term cash flow, the longer term is impossible. Even if you work for a large, “deep pockets” organization or have significant funding reserves, acting as though resources are limited often produces the best results. No matter what size your entity, your responsibility is to get the biggest return from your resources that you can. One of the ways this book can help you to be better than your competition is that your competition will still be thinking in outmoded, less-productive ways about marketing. You will be much more able to get increased productivity from your marketing budget and will be able to develop offerings that are part of sustainable competitive advantage.

The Authors' and the Book's Heritage

Marketing That Works is possibly the best of both the academic and practical approaches to marketing issues—it comes from the intersection of both approaches.

This book's intellectual parent is *Entrepreneurial Marketing: Lessons from Wharton's Pioneering MBA Course,* by Len Lodish, Howard Morgan, and Amy Kallianpur. The book got started as a by-product of the entrepreneurial marketing course that Len Lodish developed at The Wharton School of the University of Pennsylvania. In the class, MBA students worked in groups to develop marketing plans for entrepreneurial ventures they were possibly starting. Along with the instructors' comments on how marketing could be used to help entrepreneurial ventures, the students were exposed to successful entrepreneurs who spoke and answered questions.

Since the course was begun and the first book was released, we have expanded the experience base from which we draw beyond the classroom. Len Lodish has over 40 years of applying marketing and strategic thinking to entrepreneurial ventures. One of Len's early entrepreneurial ventures has become Information Resources, Inc. (IRI). As a corporate director and consultant to IRI, Len has worked with many of the major packaged goods firms to improve their marketing productivity—including Procter & Gamble, PepsiCo, and Campbell's. Len was also the Founding Vice Dean and advisor to the Wharton Venture Initiation Program in San Francisco. He has been a director, advised, and/or invested in over 40 ventures, including some that have had exits in the hundreds of millions. Howard Morgan brings more than 35 years' experience with over 300 high-tech ventures as a consultant, director, sometimes executive, and financial resource. Shellye Archambeau was one of the first entrepreneurs to speak with the entrepreneurial marketing class when it was given at Wharton's San Francisco campus. Shellye was really elegant in showing how basic entrepreneurial marketing concepts, methods, and paradigms are useful at both large and small firms—from IBM to MetricStream, where she is currently the CEO. As an educator, practitioner, and investor in entrepreneurship and innovation, Jeffrey Babin has worked with Fortune 100 companies as well as technology start-ups to create value through new products and marketing strategies. Our team of authors brings a unique combination of proven experience in the classroom, in the field, and in the board rooms of many companies. The results reflect both academic rigor and high returns on marketing investments.

This edition of *Marketing That Works,* like the best marketing programs, has been tested, adapted, and restructured in order to deliver the greatest value. We have added and updated many of the concepts, methods, and paradigms that deliver results and expanded them for application by any size firm that wants to make more money by acting like a successful entrepreneurial marketer.

The Importance of Marketing

Marketing, depending on how broadly you define it, is becoming the most important way many firms differentiate themselves. As you will see, marketing's biggest job is impacting how your product offerings are perceived by your target market(s). What's the difference between Jet Blue, Southwest Airlines, or American Airlines Group (American Airlines & US Airways)? Although they all fly customers from one location to another, which customers they fly and the perception of what it is like to use their services are very different. Other examples are Apple, Samsung, and Xiaomi. They all sell smartphones. Apple's positioning is elegant design and usability within the Apple ecosystem; Samsung develops innovative products for the high-end market; and Xiaomi offers high-quality technology at competitive prices to the largest markets. Mistargeted marketing would spend dollars attracting low-end buyers to Apple, when they are unlikely to buy. Proper targeting would focus on bringing Xiaomi phones to the fast-growing mainstream consumer of Asian markets, which has been extremely successful.

> Because the purpose of business is to create a customer, the business enterprise has two—and only two—basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs. Marketing is the distinguishing, unique function of the business.
>
> —Peter Drucker, *The Practice of Management*, 1954

These words, written more than a half-century ago, are just as true today. Marketing is of critical importance to the success of a company. In a recent survey, 14 venture capitalists that backed more than 200 ventures rated the importance of business functions to the success of the enterprise. The marketing function was rated 6.7 on a scale of 7.0, higher than any other business functions, in terms of importance to success of entrepreneurial ventures. In-depth interviews with the same venture capitalists concluded that venture failure rates can be reduced as much as 60% using pre-venture marketing analysis. Too many ventures are focused on the technical superiority or inventiveness of their product, but "build it and they will come" often fails because the customers need to be educated with new products.

Entrepreneurial marketing is the tool that every manager needs to help her product or service offering be perceived as more valuable than the competition by target segments. Marketing strategies and tactics help guide the development of offerings that the market wants, help target the firm's offering to the right customers, get the product or service to the customer, and help ensure that the customers perceive the incremental value of the offering better than the competition and will pay for the added value.

Entrepreneurial marketing is also geared to make the resources supporting marketing go as far as possible, squeezing every penny used for marketing to make it as profitable as possible. We will show how to balance incremental lifetime revenue with incremental lifetime costs to be more efficient with marketing activities such as sales forces, advertising, promotion, and public relations. We will also show how in marketing, *adaptive experimentation* can be a very efficient way to estimate the incremental revenue and incremental costs of many marketing activities. Many executives feel that they have to decide "once and for all" how best to get to market. However, the reaction of the marketplace is often very difficult to forecast in advance. Many times, it is preferable to try two or three different ways to get to the market, measure the incremental impact of each method, and then roll out the one that works the best.

One Positioning, Multiple Stakeholders

Marketing is important, but not just in its traditional role of aiding in developing, producing, and selling products or services that customers want. We will demonstrate in the first chapter that *positioning,* the combination of *segmentation* and *differentiation,* are the real core of what makes ventures financially successful or not successful and provide the basis for sustainable competitive advantage.

Positioning is how the product or service is to be perceived by a target market compared to the competition. It answers the question: "Why will someone in the target market(s) buy my product or service instead of the competition?" An equivalent question is: "What should be the perceived value of my offering compared to the competition?" Positioning is intimately related to core distinctive competencies that the firm has or can develop.

The marketing plan—including appropriate pricing, public relations, promotion, advertising, distribution channels, and sales efforts—flows directly from the positioning decision. The positioning sets the vision for the offering in the marketplace and must be unified, consistent, and clear to gain market acceptance, increase perceived value, and gain purchase. However, the tactics and media of communicating the positioning may vary as they focus on other stakeholders who may be at least as important as the end customer:

- *Investors* and potential investors in the venture
- *Market intermediaries* between the company and the end customer
- *Employees* and potential employees
- *Strategic partners*
- *Users,* the nonpaying parties who may influence customers (for example, viewers of advertising-supported programs)

Each of these stakeholders is concerned about the end customer product positioning, but they are also concerned about other issues that are at least as important to them—the *equity* and *image* of the venture. The successful cost-effective marketer has a big job. He needs to manage how his venture is perceived on all three issues—its *product offering, corporate image,* and *equity*—by all of the different constituencies. The positioning challenge is even more daunting because all the stakeholders have different values that they typically seek in the venture's product offering, image, and equity. Throughout this book, we consider all of these stakeholders in the concepts and methods described.

As Bo Peabody points out in his book *Lucky or Smart,* an entrepreneur is always selling her stock. In the early stages of almost every venture, there is no revenue coming in, and expenses are covered by loans or equity. Marketing to investors requires a different approach than marketing to customers, because to them, the product is those shares they're buying. How will they become more valuable? And hiring needs a different way of communicating because getting the best and brightest to work with your venture, a task on which companies such as Microsoft and Google have focused, requires them to believe in your mission, people, and image, as well as the value of stock options. Even in the product area, the customers (those who actually pay for the goods and services) are often not the same as the users (those who consume the goods or services). In many Internet companies—whether a new information site, product-focused company, or service provider—advertisers may be the paying customers, while these customers can only be drawn in by having lots of end users of the company's offering. The plan for marketing to the paying customers needs to be quite distinct from the one designed to draw users.

Challenges of the Next Decade

The Internet began as a network of connected computers that could share information. Today, the devices connected by internetworking technologies extend well beyond the desktop-bound boxes of the late twentieth century. The nodes of the Internet are devices of all types, which are sending and receiving data. The Internet of Things is only the latest term describing the type of connected devices. We are currently experiencing a proliferation of sensors that gather data about location/position, movement, environment, and any number of measurements about changes in state of ourselves as well as our devices. We have only begun to figure out how to capture value from this massive and dynamic source of information.

For years, we have been gathering information about online behaviors to better refine our marketing activities. Now, *Big Data* is the phrase used to describe the analysis of the stream of data we are now gathering from all sources. Making this information actionable is our latest challenge. We have yet to imagine the new products and services that will deliver value from these data streams. We do know that industry sectors will continue to be redefined by disruption of the traditional rules and structures in health care, education, retail, security, transportation, and others.

On March 10, 2000, the NASDAQ index hit a (then) lifetime intraday high of 5,132. Fifteen years later, the NASDAQ is back at (or near) those highs, yet the complex of the leading NASDAQ companies has changed (see Table I-1). Most notable (other than 6 of the 10 in the 2000 top ten are no longer in the top 10) is the shift of companies from hardware and infrastructure to services and more consumer orientation. This is a direct result of the increased value in consumer and information-based services. This trend will continue.

Table I-1 Top 10 NASDAQ Components by Market Cap (Carew, 2015)[1]

March 10, 2015	March 10, 2000
Apple $724.6 billion	Microsoft $525.4 billion
Google $382.3 billion	Cisco $466.4 billion
Microsoft $347.4 billion	Intel $401.3 billion
Facebook $218.7 billion	Oracle $232.4 billion
Amazon $171.9 billion	Sun Micro.$164.5 billion
Intel $151.3 billion	Dell $131.5 billion
Gilead $147.8 billion	Qualcomm $96.4 billion
Cisco $147.2 billion	Yahoo $93.7 billion
Comcast $125.8 billion	Applied Materials $74.6 billion
Qualcomm $119.3 billion	JDS Uniphase $68.9 billion

Technology development and the Internet of Things will also cause changes in policy and regulatory environment. Once the stuff of science fiction, drones and driverless cars are not only a reality, but market-leading companies like Google and Amazon are pursuing business strategies and models based on these technologies. The implications of this for logistics and transportation is only outweighed by regulatory, security, and societal impact these technologies will have. All of this change will occur in a world of changing governments, shifts in control and availability of natural resources, and never-ending advancement of technology and capital markets from many different countries around the world.

Whereas the previous two decades saw the Internet and internetworking technologies accelerate globalization, change how business relationships work, and drive business model evolution, today we no longer distinguish between Internet-based businesses and business. All businesses are and will be technology-enabled and technology-enhanced. The more things change, the more they stay the same, and Peter Drucker's adage that "Marketing is the distinguishing unique function of business" will be as true 50 years from now as it was 50 years ago. The key to any marketing that impacts sustainable competitive advantage is an understanding of "What am I selling to whom?" and "Why do they care?" These are the key questions we address in this book.

Section One, "Marketing Strategy—Refine Your Offering and Positioning," explores how to refine your offering and positioning. Section Two, "Demand-Generation and Sales—Lead Your Customers to Your Offering," focuses on generating demand for your offering. And Section Three, "Execution—Cultivate the People and Resources to Make Your Marketing Work," presents the key resources, including the most important resources of people, to drive your marketing efforts to successful outcomes.

Endnotes

1. S. Carew. *NASDAQ Looks Different 15 Years after Its Peak: Then and Now.* (2015, March 11). Retrieved from Reuters: http://blogs.reuters.com/data-dive/2015/03/11/nasdaq-looks-different-15-years-after-its-peak-then-and-now/

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1

Marketing-Driven Strategy to Make Extraordinary Money

Orvis Company—Excellent Entrepreneurial Positioning

The Orvis Company has done an excellent job over the years of capitalizing on a unique positioning in a very competitive industry. They sell "country" clothing, gifts, and sporting gear in competition with much bigger brands like L.L. Bean and Eddie Bauer. Like their competitors, Orvis sells both retail and mail order. How is Orvis differentiated? They want to be perceived as the place to go for all areas of fly-fishing expertise. Their particular expertise is making a difficult sport "very accessible to a new generation of anglers."[1] Since 1968, when their sales were less than $1 million, Orvis has been running fly-fishing schools located near their retail outlets. Their annual sales are now over $350 million. The fly-fishing products contribute only a small fraction of the company's sales, but the fly-fishing heritage adds a cachet to all of Orvis's products. According to Tom Rosenbauer, beginner fly fishermen who attend their schools become loyal customers and are crucial to continuing expansion of the more profitable clothing and gift lines. He says, "Without our fly-fishing heritage, we'd be just another rag vendor."[2]

The Orvis positioning pervades their entire operation. Their catalog and their retail shops all reinforce their fly-fishing heritage. They also can use very targeted segmentation to find new recruits for their fly-fishing courses. There are a number of targeted media and public relations vehicles that reach consumers interested in fishing. Their margins are higher than the typical "rag vendor" because of their unique positioning. The positioning is also defensible because of the consistent perception that all of their operations have reinforced since 1968. A competitor will have a very difficult time and large expense to reproduce the Orvis schools and retail outlets. It also will be difficult for a competitor to be a "me too" in an industry where heritage is so important. The positioning decisions Orvis made in 1968 probably added close to $1 billion of incremental value to their venture since that time. That value is our estimate of the difference of Orvis's actual profit since 1968 compared with what the venture's profitability might have been had they just been "another rag vendor." Victoria's Secret is another company that has really leveraged excellent positioning, as discussed later in this chapter.

Positioning to Enhance the Value Proposition

"What am I selling to whom, and why will they buy?" Determining the answers to this seemingly simple question will have more impact on the success of your venture than anything else. The answers will drive the essence of your unique perceived value proposition to your customers.

What is a unique perceived value proposition, and why is it important?

First, a perceived *value proposition* is the promise of intrinsic worth that your product, service, or offering can provide to customers as perceived by those customers. It is the statement of benefits a customer can expect when buying from you. Simply stated, it's what they perceive they get for their money. A *unique value proposition* is one that is distinguished from the value propositions offered by competitors.

Value is usually created along three dimensions:

- Performance value (superior functionality)
- Price value (low cost)
- Relational value (such as personalized treatment or how the customer will feel or perceive herself because of product/service purchase)

Value is also relatively *perceived.* For instance, one company will place more weight on low cost, whereas another will place it on reliability. For example, Cisco will charge over ten times the price as former competitor and now subsidiary Linksys will for wireless routers that have the same operating characteristics but higher perceived (and actual) reliability. For IT buyers to whom reliability and system uptime are crucial, the Cisco value is there. The home wireless networker is much more concerned about the price paid and will sacrifice some extreme reliability for a significant price reduction. Therefore, it is critical to know to whom you are selling to position your venture to provide a unique value proposition.

Positioning represents the foundation of the venture and its marketing. It is on this foundation that the unique value proposition is built and upon which the customer-oriented marketing plan is based. All of the venture's important decisions and tactics are critically dependent on these basic elements. However, determining positioning is not easy. If other marketing decisions are made before the positioning is defined, there is a danger that resources such as money and time will be poorly used and that expected results will not be realized. The customer-oriented marketing plan must be based on the positioning of the venture, which is to say the target market(s) and the unique and differentiated value proposition offered.

Segmentation answers the first half of the question: *"What am I selling to whom?"* It is through segmentation that the market is divided into categories of like-minded buyers. Once the categories are determined, the target market can be determined.

Differentiation answers the second half of the question: *"...and why will they buy?"*

Positioning is determining how the product-offering bundle should be perceived by the target market as compared with the competition.

Every word in this positioning definition has been chosen carefully. The words *determining* and *should* imply that positioning is an active management decision, not a passive taking of what is given. The words *product-offering bundle* are used instead of product or service because the consumer buys a bundle of perceived attributes when they make a purchase. Everything that a venture does that affects the perception of attributes affects the positioning. Things like how the venture responds to inquiries, to the look of their stationery, to the feel of their website, can all impact the perception of the product-offering bundle. The word *perceived* reinforces that consumers as people only make decisions based on their perceptions as opposed to reality. The *target market* shows that the venture's positioning needs to impact those people who are most likely to value the positioning the highest. *Compared with the competition* reinforces that the target market's perceptions are all relative to competition.

Getting Started: Segmentation and Targeting

In reality, the segmentation and differentiation decisions are typically developed together. However, for ease of communication, we will take them one at a time and consider the interrelationships as we go. Conceptually, segmentation is a process in which a firm's market is partitioned into submarkets with the objective of having the response to the firm's marketing activities and product/service offerings vary a lot across segments, but have little variability within each segment. For the entrepreneur, the segments may, in many cases, only amount to two: the group being targeted with the offering and marketing activity and "everyone else." The targeted segment(s) will obviously be related to the product/service offering and the competitive strategy of the entrepreneur.

There are some important questions that need answers as part of the selection of target market segment(s):

1. The most important question is: *Does the target segment want the perceived value that my differentiation is trying to deliver more than other segments?* Sometimes targeting may involve segments that differ on response to other elements of the marketing mix. However, many successful ventures differentiate target segments on the value they place on the differential benefits they perceive the firm to deliver. If a firm can target those people who value their offering the highest compared with competition, it has many benefits, including better pricing and

higher margins, more satisfied customers, and usually a better barrier to potential and actual competition.

2. Almost as important to profitable segmentation is: *How can the segment be reached? And how quickly?* Are there available distribution or media options, or can a self-selection strategy be used? Are the options for reaching the segment cost effective? Can enough of the segment be reached quickly enough so that you can be a leader before competitors can target the same segment?
3. *How big is the segment?* If the segment is not big enough in terms of potential revenue and gross margin to justify the cost of setting up a program to satisfy it, it will not be profitable.
4. Other questions to also keep in mind include: *What are likely impacts of changes in relevant environmental conditions (for example, economic conditions, lifestyle, legal regulations) on the potential response of the target segment? What are current and likely competitive activities directed at the target segment?*[3]

Virtual Communities: The Ultimate Segment?

The Internet has fostered thousands of virtual communities. These are made up of groups of people who are drawn together online by common interests. Just as enthusiasts for certain activities such as hobbies, sports, recreation, and so on have gotten together in metropolitan areas for years, the Internet lets enthusiasts from all over the world "get together" virtually. The same phenomenon holds for business users of certain software or specialized equipment. Users or potential users like to get together to help each other with mutual solutions to common problems, helpful hints, new ideas, or evaluations of new products, which might help the community members. It is much easier to post notices on a blog or a forum than to physically go to an enthusiast's meeting. A virtual community member can interact with his counterparts any time of the day or night and reach people with very similar needs and experiences.

These virtual communities can be an entrepreneur's penultimate segment. In terms of the preceding segmentation selection questions, the answers to the first two questions are almost part of the definition of an online virtual community. If your product or service offering is tailored (or as importantly, *is perceived to be tailored*) to the members of a virtual community, then it will be positioned as very valuable to that segment compared with any other group. The size of the segment is easily determined as the size of the virtual community.

The incentives for entrepreneurial companies to get involved with virtual communities are great, but it is not a one-way street. All elements of the marketing program need to be cleverly adapted to the new segmentation environment. The challenges of marketing in virtual communities are summarized nicely by McKinsey consultants John Hagel III and Arthur G. Armstrong:

> Virtual communities are likely to look very threatening to your average company. How many firms want to make it easier for their customers to talk to one another about their products and services? But vendors will soon have little choice but to participate. As more and more of their customers join virtual communities, they will find themselves in "reverse markets"—markets in which customers seek out vendors and play them off against one another, rather than the other way around. Far-sighted companies will recognize that virtual communities actually represent a tremendous opportunity to expand their geographical reach at minimal cost.[4]

An Entrepreneurial Segmentation Example—Tandem's East

A clever entrepreneur can use target segmentation as a prime reason for beginning a venture. An example is Mel Kornbluh, who began a company called *Tandem's East* in his garage in the late 1980s. Mel is a specialist in selling and servicing tandem bicycles—bicycles built for two (or three or four). Mel realized there was a segment of bicycling couples that would appreciate the unique benefits of tandeming. It is the only exercise two people can do together, communicate while they exercise, appreciate nature together, and do all this even though they may have very different physical abilities.

When he began his venture, intuitively Mel had very good answers to the previous questions. There were actually two target segments that Mel could target. The first was existing tandem enthusiast couples—those who already had a tandem and would need an upgrade or replacement. The other target segment was relatively affluent bicycling couples who had trouble riding together because of differences in physical abilities. The couples needed to be affluent because tandems are relatively expensive when compared with two regular bicycles. They are not mass-produced and do not take advantage of mass scale economies.

At the time Mel started in 1988, there was no one on the East Coast who had staked out a position as a specialist in tandems. As tandem inventory is expensive and selection is very important to potential buyers, he could establish barriers to potential competitors by being first to accumulate a substantial inventory. He was also able to establish some exclusive arrangements with some suppliers by being first in the area and offering them a new outlet.

Mel also had invented a better tandem crank extender to make it easier for the stoker (the rear rider and typically the female of a couple) to reach the handlebar comfortably. He has patented the design and still sells over 600 pairs per year almost 25 years later.

It was relatively easy for Mel to reach both of his segments. Existing tandem enthusiasts were members of the Tandem Club of America that has a newsletter they publish bimonthly. It is relatively inexpensive to advertise in the newsletter that reaches his first segment precisely. Not only does it reach the segment, but because the readers are already enthusiasts, they pay attention to every page of the newsletter. Over time, Internet user groups dedicated to tandeming were also formed. They are also natural vehicles for effectively reaching the segment.

His second segment was also relatively easy to reach cost effectively. Affluent bicycling couples read cycling magazines—the major one being *Bicycling Magazine*—and specialized websites and blogs. Again, because they are enthusiasts, the target segment pays a lot of attention to even small ads. This segment also attends bicycling rallies and organized rides. Mel still attends many rallies that his target customers will attend.

Both segments were much larger than Mel needed to make the business viable. With small response rates in either segment, he could afford to pay his overhead and to begin to accumulate a suitable inventory. In fact, his advertising costs are significantly under 10% of revenue, indicating that reaching the segments is extremely cost effective.

Thus, Tandem's East was begun and flourished by creatively seeing target segments that valued what Mel was selling. The segments were substantial and easily reached cost effectively, and competitive barriers could be erected. In 2014, Mel had more than 100 tandems displayed in stock for customers to try. Since 1988, no one has been able to effectively compete with Tandem's East in the Mid-Atlantic area. A few other entrepreneurs have started similar ventures in other geographic areas, but no one has been able to effectively challenge Mel in his area. If the average tandem sells for about $4,000, having $400,000 of inventory is a substantial barrier to entry.

An Entrepreneurial Segmentation Audit

Figure 1-1 shows a segmentation audit that the entrepreneurial marketer can use as a checklist to make sure that he has not forgotten an element of segmentation to consider. It may not be cost effective to address many of the audit issues with robust quantitative analysis. However, the issues could be addressed qualitatively—not addressing these issues at all can cause big problems.

The goal of the rest of this book is, in fact, to flush out the seventh group of issues in the segmentation audit. How does segmentation relate to all the other elements of the marketing mix for an entrepreneurial venture? Just as fundamental as the targeting decisions, however, are the interrelated decisions about differentiation, to which we turn next.

	Completely Describes Us (A)	Somewhat Describes Us (B)	Does Not Describe Us At All (C)	Don't Know (D)
1. Our business strategies recognize the need to prioritize target segments.	____	____	____	____
2. Our marketing plans include specific plans for each of the selected segments.	____	____	____	____
3. We have specific product and service offerings for each target segment.	____	____	____	____
4. We have detailed information about segments, including:				
• Current size of the segment	____	____	____	____
• Potential size of the segment	____	____	____	____
• Key business needs of the segments	____	____	____	____
• Information systems needs of the segment	____	____	____	____
• Their prioritized needs/benefits sought	____	____	____	____
• Their prioritized preference for product and service features	____	____	____	____
• Demographic characteristics of the segments	____	____	____	____
• Product ownership and usage	____	____	____	____
• Competitor's strength in each segment	____	____	____	____
• Perceived positioning of each competior by the members of the segment	____	____	____	____
5. We have a process for updating the information on our segments on an ongoing basis.	____	____	____	____
6. Our segments are developed across countries, but recognize unique country requirements and subsegments.	____	____	____	____
7. Information about the target market segments is incorporated effectively into the following categories:				
• Positioning	____	____	____	____
• Product and service offering	____	____	____	____
• Pricing	____	____	____	____
• Promotion	____	____	____	____
• Public relations	____	____	____	____
• Advertising	____	____	____	____
• Distribution	____	____	____	____
• Sales force	____	____	____	____
8. We have an effective process for implementing segmentation research.	____	____	____	____
9. We have an effective process for implementing segmentation strategies.	____	____	____	____
10. We have P&L reports and accountability by segment.	____	____	____	____

Figure 1-1 A segmentation audit

Adapted from correspondence of Yoram J. Wind, 1997.

Gaining the Competitive Advantage: Differentiation

Differentiation answers the question: "Why should a member of the target segment buy my product or service rather than my *competitor's*?" A related question is: "What are the unique *differentiating* characteristics of my product or service as *perceived* by members of the target segment(s)?" The italicized words in these questions are crucial for effective positioning. First, the word *perceived* must be analyzed. It is obvious people make decisions based only on what they perceive. Many entrepreneurial firms are happy when they have developed products or services that are *actually* better than the competition on characteristics that they know should be important to people in their target market(s). What they forget is that the job is not done until the targeted people actually *perceive* the differences between their product and the competitions. In fact, in the Internet space, many companies try to gain the perception that they're better long before they can deliver on that in reality.

One of the hindrances to effective positioning is that most humans cannot perceive more than two or three differentiating attributes at a time. It is important that the differentiation be easy to remember. If there are too many differentiating attributes, the potential consumer can get confused. The marketer's job is to isolate the most important differentiating attributes of her offering and use those in all the elements of the marketing mix. In many cases, it is cost effective to do concept testing or other research with potential consumers to isolate the best combination of attributes (see "Testing Purchase Intention: The Concept Test" in Chapter 2, "Generating, Screening, and Developing Ideas"). In other cases, the entrepreneur can instinctively isolate a good combination of attributes.

Entrepreneurs who have been successful may overstate how easy it was to get a good combination of attributes for differentiation. Companies such as Starbucks (just great-tasting, excellent-quality coffee) or Apple (fun and easy to use) were successful at least partly because of very effective positioning. What has not been documented is how many entrepreneurial ventures failed (or were not as successful as they could have been) because their differentiation and associated target segments weren't very effective. The venture capitalists' estimate (cited in the Introduction)—that as many as 60% of failures can be prevented by better prelaunch marketing analysis—underscores the importance of getting your positioning right and testing with real consumers to confirm that it is right.

A big mistake many ventures make is to differentiate based on *features* of their product offering compared with their competitors. It's amazing how many entrepreneurs we have encountered who have great ideas based on technical features that are somehow better than their competitors'. The fundamental paradigm that "customers don't buy features; they buy *benefits*" has been lost on many entrepreneurs. Even more precisely, customers buy based on *perceived benefits.* Not only does the entrepreneur need to develop the best set of benefits versus the competition; he must also somehow get the customers to perceive these benefits.

In his article, *Look Before You Leap,* Robert McMath also says that communicating features instead of perceived benefits is "one of the most common mistakes marketers make."[5] He describes a training film in which British comedian John Cleese illustrates how a surgeon might explain a new surgical procedure to a patient lying in a hospital bed:

> "Have I got an operation for you...Only three incisions and an Anderson Slash, a Ridgeway stubble-side fillip, and a standard dormer slip! Only five minutes with a scalpel; only thirty stitches! We can take out up to five pounds of your insides, have you back in your hospital bed in 75 minutes flat, and we can do ten of them in a day."[6]

The surgeon is concerned only with technical features that he as producer (entrepreneur) is excited about. The customer has different concerns. All the customer probably wants to know is whether he'll get better, perhaps what his risks of complication are, and whether he'll be in pain.

Distinctive Competence and Sustainable Competitive Advantage

Differentiation, by itself, is not to ensure success in the marketplace. Successful companies are able to leverage their differentiating attributes into a sustainable competitive advantage, the Holy Grail that most ventures continually pursue. If a way can be found to continually be ahead of competition, then the venture will probably return higher-than-normal returns to its owners. Being ahead of competition means that the venture can easily sell more, and/or charge higher prices, and/or have lower costs than "normal" firms. Let's look at competitive advantage from an entrepreneurial marketer's point of view. As you will see, this point of view is the customer's point of view. Your perceived competitive advantage, related to your competitive price, is why the customer or potential customer will more likely buy your product or service. If you can create competitive advantage that is sustainable from competitive encroachment, you are creating sustainable value.

Distinctive competence is how some people refer to the advantage that is the source of the sustainable competitive advantage. If the advantage is sustainable, then your venture has something that is difficult for your competition to emulate and must be somewhat distinctive to your venture. What are sources of distinctive competence for entrepreneurs that might be sources of sustainable competitive advantage? Creative entrepreneurs seem to be finding new distinctive ways to get customers to prefer them to the competition. Here are some of them:

- Many companies use technology to obtain competitive advantage. Patents and trade secrets are weapons that might keep competition from imitation. For software companies, source code for their products may be a key competitive advantage. Priceline.com has a patent on their method for having consumers try to name their own price for goods and services. This is a source of sustainable competitive advantage.
- Other companies may rely on excellent design, perceived high quality, or continual innovation as distinctive competencies. In its prime, Dell Computers, for example, was able to offer the unique value proposition that it would custom build a computer,

exactly as and when a customer ordered it, and deliver it at a competitive price. Dell was able to execute on this because its investment in supply chain and order management systems created a "just in time" system, eliminating the cost of overhead, inventory, and mistakes in calculating demand. However, as other competitors, such as Lenovo and Hewlett Packard, have found alternative low-cost manufacturing and distribution systems, Dell's competitive advantage has been eroded.

- Other businesses use excellent customer service by loyal employees who have adopted corporate service values. Southwest Airlines is a great example of a venture that differentiates itself from competitors with both excellent customer service and technology for scheduling and turning flights around. Many customers fly Southwest, not only because it is economical, but also because it is fun. Other airlines have tried to imitate Southwest and have been unsuccessful.
- Reputations and other differences in customer perception of products, services, and companies can be extremely valuable sources of sustainable advantage. If consumers perceive you as being a preferable source, they will more likely choose your products or service. Industry-leading quality of service has always been a Lexus hallmark. Think about how Lexus focuses on providing a great customer experience. They collect lots of information from each customer and use it the next time the same customer interacts with the company to make her experience even better, from service scheduling, to loaner cars, to doing a good job explaining the work that was done on the vehicle, to completing a quality vehicle inspection process. This is a major reason why Lexus became the top luxury import in 1991 and the number-one luxury car overall in 2000, a title it kept until 2010 when the other two big luxury brands began significant programs to compete with Lexus on service, quality, and innovation. Once the European luxury brands (Mercedes, BMW, and Audi) had achieved parity with Lexus on service, quality, and innovation, they were able to differentiate on brand heritage, which was difficult for Lexus to compete with. Lexus did not continue to differentiate itself on service or quality by upgrading its perception versus the competition. The lesson

here is that positioning is not static but needs to be constantly strengthened compared with the competition.

- Diapers.com developed a reputation for amazing customer service by making it their highest priority from the venture's beginning in 2005. Everything they did was targeted toward strengthening their desired positioning—prices similar to Walmart; fast, reliable, free shipping; the broadest selection anywhere; and excellent customer service. In 70% of the United States, if a mom ordered diapers or any other baby stuff from diapers.com by 6:30 p.m., she would receive the shipment the next day. Diapers.com was an innovator in using Kiva robots to semiautomate their warehouse/fulfillment function in order to be able to get such fast fulfillment. Diapers.com and its successor websites were bought by Amazon in 2010 for over $500 million. After Amazon saw how successful the Kiva robots were, Amazon also bought Kiva. Even as a division of Amazon, diapers.com was still getting over 30% of new customers via referrals from existing customers.

  The "secret sauce" to diapers.com and its successor websites—yoyo.com (toys), soap.com (health and beauty aids), beautybar.com (upscale cosmetics), and casa.com (housewares)—was the way they handled customer problems. From the beginning of the company, the "complaint department" was in the corporate offices, right next to the CEO's office. All of the firm's managers had to spend time answering complaints from customers. All of the employees in the department were incented in only one way—to delight the customer at the end of the complaint interaction. They had no constraints—and could do anything they wanted to make sure that the customer's complaint was not only solved, but that the customer was delighted after the interaction.

  Marc Lore, the cofounder and CEO of the company, really understood the power of reputation with young mothers. Every time a customer's complaint was turned to delight, they were very likely to want to share their delight with their friends.

All of these are ways that entrepreneurs search for sustainable competitive advantage. They relate to how customers choose one product or service versus another. Key segmentation and differentiation decisions are intertwined with why customers will choose you versus your competition. These decisions, which feed your unique value proposition, are best made to leverage the distinctive competence of the venture.

Tying Together the Value Proposition: Distinctive Competence, Sustainable Competitive Advantage, and Positioning

Now that we have explored segmentation and differentiation and established their relationship to the strategic concepts of distinctive competence and sustainable competitive advantage, we can return to the unique value proposition. The unique value proposition is the public face that is put on the target market and positioning decisions that were based on the venture's distinctive competence and sustainable competitive advantage. We can now determine the answer to "What am I selling to whom and why will they buy" based on the decisions discussed previously. Be careful, however—these decisions are not easily changed. It typically takes more effort to change a value proposition than to attempt to establish a new one in a vacuum. To change a value proposition is more than changing a slogan. It means undoing a market perception that has been established based on how a venture executes and replacing it with another.

For entrepreneurial companies, deciding on the value proposition—the intertwined positioning, distinctive competence, and sustained competitive advantage decisions—is the most important strategic decision made before beginning a new business or revitalizing an older business. Take the time to do it right. If the market doesn't value *what they perceive to be the distinctive competence of your firm versus the competition* (another way of defining *differentiation*), then the positioning will not be successful. If the positioning is not successful, the value proposition will fail to attract customers. Furthermore, because it is difficult to change perception, the perceived distinctive competence should be sustainable over time. Thus, it is crucial to get the positioning reasonably close to right *before going public the first time*. Figure 1-2 shows the logic of our recommended decision-making process of getting the strategy right before the tactics.

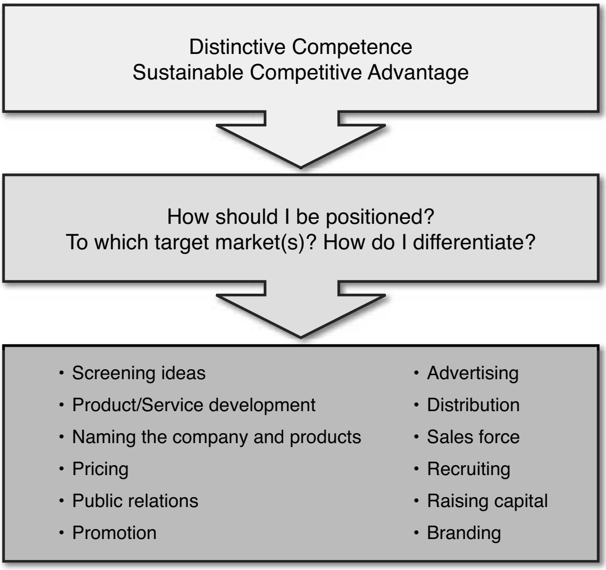

Figure 1-2 Market-driven strategy

By now, this logic should be clear to you. The venture must first assess and creatively identify potential and existing competencies that can be possible sources for sustainable competitive advantage. This assessment needs to be integrated with how the market might perceive the product offerings that may result from the competencies versus how the potential customers might perceive the competition. This assessment needs to be continually re-evaluated as competition and perceptions and consumer needs and wants will change over time. Only after the positioning and the value proposition have been determined, should the tactical marketing elements in the bottom of the figure be decided and executed. Pricing is the only marketing mix decision that should ideally be determined at the same time as the positioning and value proposition. We show in Chapter 3, "Entrepreneurial Pricing: An Often Misused Way to Garner Extraordinary Profits," that pricing is intimately related to and leveraged by the positioning decisions. Customers are willing to pay more for product/service offerings that are perceived as adding more value than the competition's.

In Chapters 2 and 3, we also explore cost-effective ways of getting market reaction to positioning options before spending a lot of resources.

Victoria's Secret and L Brands—Excellent Integration of Positioning, Segmentation, and Distinctive Competencies[7]

The original Victoria's Secret store and catalog was in Palo Alto, California. In 1982, when L Brands (formerly Limited Brands) founder, Les Wexner, first saw this store, it was very sleazy stuff. However, after seeing the store, Les got the idea to reinvent underwear as lingerie and make underwear emotional—have underwear make you feel good. Les was influenced by how he thought European women viewed underwear much differently than American women. A brilliant idea early on was to use supermodels as part of the public relations (PR) and advertising for Victoria's Secret (VS).

L Brands bought the first VS store for $1 million in 1982. By 1995, they had a catalog, 300 retail stores, and an $800 million business. The catalog was the greatest revenue contributor. In 1995, VS products were perceived by women and men as suited mainly for *Saturday night and special occasions.* In 1995, VS marketers identified an opportunity for a much-expanded positioning for VS—addressing "everyday" needs while maintaining the "special" image. They began the transformation of VS by segmenting by usage occasion. Their first products in the repositioned lines were everyday cotton, but positioned and designed as "sexy." There was a lot of uncertainty in L Brands management about whether it was possible to have women perceive cotton as lingerie. The risk was that cotton underwear might be perceived as comparable to Hanes as opposed to being perceived as sexy lingerie. This was a big communication challenge.

All the elements of the marketing mix needed to be changed to support the new positioning. VS had never advertised before and had only used their catalog as an advertising vehicle. The catalog was low in reach and high in frequency—not suited for getting new people into the brand on a large scale or for changing the perception of the product. Thus, large-scale TV advertising and PR were appropriate, using their successful supermodel icons as part of the repositioning. The supermodels were the embodiment of the emotion of the new VS positioning. The VS supermodel fashion shows on the Internet were extremely effective at reinforcing their positioning. So many people came to their website that they overwhelmed the Internet servers.

In 1995, before the repositioning, VS bras were priced two for $15, and VS was a merchant-driven business. It needed to be made into a fashion business. By 2006, the average price for a VS item had more than doubled, and their revenue had risen by a factor of over four due to the repositioning. One key to the success of the repositioning was that the VS bras were not only sexy, but they were extremely comfortable. The consumer didn't have to compromise between feeling sexy and feeling comfortable. The loyalty levels for VS doubled with the new bras. Increasing loyalty makes the long-term value of a customer larger, thus justifying larger expenses for obtaining new customers—a nice virtuous circle for VS.

The VS stores were an integral element of the repositioning. The in-store experience is designed to be much different from other stores—it is designed to make customers feel special, intimate, and personal. There is much more pampering.

VS has evolved subbrands over time, segmented by lifestyle:

- Provocative—"Very Sexy"
- Romantic—"Angels"
- Girly—"Such a Flirt"
- Clean and simple—"Body by Victoria"
- Younger-flirty-modern—"Pink"

VS has succeeded in doing what Starbucks has also done—changing how people view a commodity—by changing VS into a relatively inexpensive way for women to feel good about themselves. Chapters 2, 3, 6, and 7 go into more depth as to how VS and L Brands were able to use entrepreneurial marketing strategy and tactics to accomplish making VS the crown jewel of L Brands.

Positioning, Names, and Slogans

Many entrepreneurs miss positioning opportunities when they name their products, services, and companies. As we discuss in-depth later, entrepreneurs have limited marketing funds to educate their target markets about the positioning of their products and services. If the names chosen do not themselves connote the appropriate positioning, then entrepreneurs have to spend more funds to educate the market in two ways instead of one. They not only have to get potential customers to recognize and remember their product name, but they must also educate them about the differentiating attributes and benefits of the product that goes with the name. The Please Touch Museum in Philadelphia is a perfect example. Its name tells parents and their children exactly what they can expect. Many new technology and Internet-based ventures have also been very intelligent and creative in their names to connote the appropriate positioning. Companies such as diapers.com ("the best deal on diapers"), Netflix (movie rentals and streaming via the Internet), Salesforce.com (the #1 customer relationship management [CRM] company), and SnapChat (visual conversations) made it easy for potential customers to remember what they do and at least part of their positioning. Although diapers.com may limit customer perception of offerings and allows for minimal expansion beyond diapers, the Netflix name allowed the company to expand from ordering DVDs online and receiving them via the U.S. Postal Service to streaming rental movies and even original content. All of these services clearly connect to the name of the company. On the other hand, all you know just from the Amazon.com name is that it is an Internet company. The fact that it sells a multitude of products via online retail, develops and sells its own consumer electronics, and even offers Internet infrastructure services is not evident from its name. The education of the market needs to be done with other marketing activities.

Some fortunate companies have gone even further by making their names not only support their positioning, but also simultaneously let their potential customers know how to get in touch with them. Examples would be 1-800-FLOWERS, 1-800-DIAPERS, and 1-800-MATTRESS as well as diapers.com and Amazon.com.

Other companies gain leverage by having their product names and company names be the same. Do you know which Fortune 1000 company was named Relational Software? Relational Software's product was named Oracle. To improve market awareness, the company changed their name to Oracle, the name of their popular product. Oracle has become one of the top database software companies in the world. However, the gain in awareness has been a hindrance in diversifying. Oracle is known for its database but, despite large investments and marketing activities, Oracle has been relatively unsuccessful in selling their own application software. Oracle is not perceived as a strong applications software company. Oracle = database.

If the name of the company or product is not enough to position it in the customer's mind, then the next need is for a slogan or byline that succinctly (and hopefully memorably) hammers home the positioning. If the positioning has been done well, then a slogan or byline can in many cases fairly completely communicate the appropriate attributes. One good example is FedEx: "When it absolutely, positively has to get there overnight." The positioning inherent in this byline is a good example of concentrating on only the few, most important attributes to stress in order to position the company. Visa has been using "It's everywhere you want to be" for many years to differentiate itself as a ubiquitous charge card, accepted around the world. On the other hand, Michelin uses "Because so much is riding on your tires" to try to differentiate itself as better on the safety attribute for tire buyers.

Just as brevity and simplicity are valuable in positioning, they are also as valuable in slogans and bylines. The slogan that goes with a company or product name should be one that can be retained for quite a long time, as long as the positioning will be in force. Robert Keidel proposed other ground rules for effective slogans:[8] Avoid clichés, such as "genuine" Chevrolet, Miller, and so on; be consistent; use numbers, but have them backed up; be brief; take a stand; and make it distinctively your own. All of these rules are consistent with our effective positioning paradigm and make good sense.

Hindustan Unilever Limited (formerly Hindustan Lever Limited—HLL) represents an interesting example that illustrates many of the points discussed in this chapter.

Hindustan Unilever Limited: Positioning and Targeting to the Bottom of the Global Pyramid

The positioning should be made like any effective management decision. Develop criteria, generate many decision options (including creative, "out of the box" options), and then evaluate the options on those criteria. The implicit criteria for evaluating positioning decisions are typically related to the long-term and short-term impact on the entity's shareholder value. However, there are also many constraints that may limit the options, such as ethical issues, environmental issues, legal issues, corporate values and culture, and so on. The Hindustan Unilever Limited (HUL) example also illustrates how the positioning decision is deeply intertwined with decisions on how to promote, distribute, and sell the products. C.K. Prahalad in his valuable book, *The Fortune at the Bottom of the Pyramid,* documents the need for the new positioning and how HUL responded to that need with innovative product positioning and marketing mix strategy.

HUL is the largest detergent manufacturer in India, with $2.4 billion in sales in 2001, 40% from soaps and detergents.[9] One constraint that exists on their positioning options is their corporate mission:

> Our purpose at HUL is to meet the everyday needs of people everywhere—to anticipate the aspirations of our consumers and customers and to respond creatively and competitively with branded products and services, which raise the quality of life.
>
> Our deep roots in local cultures and markets around the world are our unparalleled inheritance and the foundation for our future growth. We will bring our wealth of knowledge and international expertise to the service of local customers.

In their history from 1990 to 2000, HUL had targeted the mass market in India. They developed some distinct competencies that should provide sustainable competitive advantage versus their competition. Products are manufactured in about 100 locations around India and distributed via depots to almost 7,500 distribution centers. HUL reaches all villages with at least 2,000 people. It has a number of innovative programs to involve the rural women in selling and servicing their products.[10] It is difficult for their competition to reach the rural population because of the costs of building the infrastructure and developing products that are appropriate for the rural market.

One of their competencies that they continue to leverage is their ability to introduce and profitably market products that the poorer parts of the society are willing to pay for. Instead of looking at costs first, they look at what the people are willing to pay. This willingness to pay is determined by the perceived value of the product by the potential customers. According to HUL Chairman Manvinder Singh Banga:

> Lifebuoy is priced to be affordable to the masses... Very often in business you find that people do cost-plus pricing. They figure out what their cost is and then they add a margin and figure that's their selling price. What we have learned is that when you deal with mass markets, you can't work like that. You have to start by saying I'm going to offer this benefit, let's say it's germ kill. Let's say it's Lifebuoy. You have to work out what people are going to pay. That's my price. Now what's my target margin? And that gives you your target cost—or a challenge cost. Then you have to deliver a business model that delivers that challenge cost.[11]

Why did HUL decide to use the "germ kill" positioning? They saw a way to fulfill an important unfulfilled need of many consumers. However, they had a number of interacting issues and stakeholders to deal with in order to make the positioning and associated targeting work.

The Unmet Need

Globally, in terms of infectious diseases, only acute respiratory infections and AIDS kill more people than diarrhea, which kills 2.2 million people annually. In India, 19.2% of the children suffer from diarrhea, and India accounts for 30% of all the diarrhea deaths in the world.[12] The solution for this problem is very simple and well known. Washing hands with soap reduced the incidence of diarrhea by 42% to 48% in a number of well-documented research studies.[13] In 2000, the solution was not being used by the masses in India. Only 14% of the mass rural population was using soap and water after defecating and before and after every meal. Sixty-two percent used water plus ash or mud, and 14% used water alone.[14]

There have been a number of attempts to solve this problem globally, but without a lot of success. In India and other developing countries, the problem was seen as too large and costly for a big public health initiative. Additionally, the solution needed to be coordinated among three different government departments—Public Health, Water, and Environment—a daunting task. Because other diseases such as AIDS got most popular attention, there wasn't a champion for diarrhea. Lastly, behavioral change in the diarrhea area is difficult to design and implement. In 2000, HUL was a participant in a public-private partnership for encouraging hand washing. It was a consortium of communities, government, academia, and the private sector and was targeting a pilot in the Indian state of Kerala. However, controversy around the consortium's mission from various community groups hampered its implementation in 2002.

HUL had a long history of marketing 107-year-old Lifebuoy, with a bright red color and a crisp carbolic smell, as "healthy clean." Since the 1960s, they marketed the product using a sports idiom to illustrate healthy clean. Their target market was the Indian male, 18 to 45 years old, with a median income of approximately $47 per month, a semiliterate farmer or construction worker living in a town of 100,000 or less.[15] However, by the late 1980s, competition had also copied the positioning so that health became perceived as the base level of cleaning, and Lifebuoy was not as differentiated. By 2000, in the developed, higher income areas of India (and the world, for that matter), the soap market was saturated and very competitive. Proctor & Gamble and Colgate were world-class competitors for the relatively affluent consumer all over the globe.

Because of this phenomenon, Unilever, the two-thirds majority owner of HUL, as a whole was expecting developing markets to account for approximately 50% of their sales over the next ten years.[16]

If HUL did not have the sales and distribution channels available to deliver the newly positioned Lifebuoy profitably at the price the market dictated, it would not be a good or even feasible strategy. The sales and distribution channel is a unique public/private mix of microcredit lending and rural entrepreneurship that began in 1999. HUL noticed that dozens of agencies were lending microcredit funds to poor women all over India. HUL approached the Andra Pradesh state government in 2000 and asked for clients of a state-run microlending program. The government agreed to a small pilot program that quickly grew. The initiative, now called Project Shakti (strength), has expanded to 12 states, and CARE India, which oversees one of the subcontinent's biggest microcredit programs, has joined with HUL.[17]

The *Wall Street Journal* illustrates the power of this channel by describing the activities and attitudes of one independent microcredit entrepreneur associated with HUL—Mrs. Nandyala:

> When one of Mrs. Nandyala's neighbors, who used a knock-off soap called Lifebuoy that comes in the same red packaging as Unilever's Lifebuoy brand, balked at paying an extra rupee (about two U.S. cents) for the real thing, Mrs. Nandyala gave her a free bar to try. A skin rash caused by the fake soap cleared up after a few days, and the neighbor converted to Lifebuoy.
>
> When another neighbor asked why she should pay more for Unilever's Wheel detergent than a locally made bar of laundry soap, Mrs. Nandyala asked her to bring a bucket and water and some dirty clothes. "I washed the clothes right in front of her to show her how it worked," she says.
>
> Project Shakti women aren't Hindustan Lever employees. But the company helps train them and provides local marketing support. In Chervaunnaram, a Hindustan Unilever employee who visits every few months demonstrates before a gathering of 100 people how soap cleans hands better than water alone. Dressed in a hospital-style smock, she rubs two volunteers' hands with white powder, then asks one to wash it off with water alone and the other to use soap. She shines a purple ultraviolet light on their hands, highlighting the specks of white that remained on the woman who skipped the soap. As the crowd chatters, the Hindustan Unilever worker pulls Mrs. Nandyala to the front of the hall, and tells the crowd she has got plenty of soap to sell.
>
> Mrs. Nandyala wasn't always comfortable with her new, public role. She first applied for a microloan from a government-run agency to buy fertilizer and new tools for her family's small lentil farm four years ago. In 2003, the agency introduced her

> to a Hindustan Lever sales director from a nearby town. She took out another $200 loan to buy sachets of soap, toothpaste, and shampoo—but was too shy to peddle them door to door. So a regional Hindustan Lever sales director accompanied Mrs. Nandyala and demonstrated how to pitch the products.
>
> Mrs. Nandyala has repaid her start-up microloan and hasn't needed to take another one. Today, she sells regularly to about 50 homes, and even serves as a mini-wholesaler, stocking tiny shops in outlying villages a short bus ride from her own. She sells about $230 of goods each month, earning about $15 in profit. The rest is used to restock products.[18]

In 2005, 13,000 entrepreneurs like Mrs. Nandyala were selling Unilever's products in 50,000 villages in India's 12 states.[19]

An important reason for the success of this integrated marketing strategy for rural India is the consistency of goals between the private entity (HUL), the government entities, and the NGOs (for example, CARE). Because the Lifebuoy product is positioned and targeted for the socially desirable improved health goal, the other entities are happy to cooperate with HUL. This targeting and positioning is strategically very valuable for HUL. As C.K. Prahalad states:

> Differentiating soap products on the platform of health takes advantage of an opening in the competitive landscape for soap. Providing affordable health soap to the poor achieves product differentiation for a mass-market soap and taps into an opportunity for growth through increased usage. In India, soap is perceived as a beauty product, rather than a preventative health measure. Also, many consumers believe a visual clean is a safe clean, and either don't use soap to wash their hands, use soap infrequently, or use cheaper substitution products that they believe deliver the same benefits. HUL, through its innovative communication campaigns, has been able to link the use of soap to a promise of health as a means of creating behavioral change, and thus has increased sales of its low-cost, mass-market soap. Health is a valuable commodity for the poor and to HUL. By associating Lifebuoy's increased usage with health, HUL can build new habits involving its brand and build loyalty from a group of customers new to

> the category. A health benefit also creates a higher perceived value for money, increasing a customer's willingness to pay. By raising consumers' level of understanding about illness prevention, HUL is participating in a program that will have a meaningful impact on the Indian population's well-being and fulfill its corporate purpose to "raise the quality of life.[20]

It is clear that this integrated positioning, targeting, and marketing sales and distribution strategy delivered sustainable competitive advantage for HUL. However, there is one area in which we feel that HUL could have improved the productivity of the whole process—with their newly developed communication channels.

HUL worked with Ogilvy and Mather to develop teams that would visit the villages—targeting the 10,000 villages in nine states where HUL stood to gain the most market share, as well as educate the most needy communities. They spent a lot of effort in designing low-cost ways of communicating with their rural target. HUL grew to 127 two-person teams in 2003 and estimates that the program is reaching 30% to 40% of the rural population in targeted states.[21] Each team went through a four-stage communications plan. Stage 1 is a school and village presentation using an interactive flip chart. At the end of the day, they assign school teachers to work with the students to develop skits and presentations for their next visit in two to three months. Stage 2 is a Lifebuoy village health day, which includes the skits and a health camp in which the village doctor measures height and weight to give "healthy child" awards to those who fall within healthy norms. Stage 3 is a diarrhea management workshop geared toward pregnant women and young mothers who might not be reached by the first two stages. Stage 4 is the formation of the Lifebuoy health club that includes activities on hygiene and keeping the village clean. The two-person team will return four to six more times to run health club activities.

As discussed in more detail in Chapter 6, "Advertising to Build Awareness and Reinforce Messaging," there is a big opportunity for improving productivity of advertising and, in this case, other communications methods, by applying adaptive experimentation. In the HUL case, they assumed that the Ogilvy and Mather-generated communication plan was the best that could be generated, and they rolled it out. However, given that each village or state could be an experimental unit, and given that some other way of efficiently communicating with the targeted rural villagers could have been more effective, there was an opportunity cost of not developing and trying and measuring the impact of other communications methods in different villages as they rolled out the program. Chapter 6 goes into more detail on how this might have been done.

Summary

Each venture must answer the "What am I selling to whom, and why will they buy?" question before it can create a successful marketing strategy and plan. Positioning combines the important elements of segmentation and differentiation. Segmentation selects the subgroup of all consumers to whom you think you can sell your products. Differentiation tries to inform members of the segment of the benefits of using your product or service, vis-à-vis any competitors. The unique value proposition is the public communication of the promise of intrinsic value that customers will receive from your products and services that they won't receive from others. All of these are based on the venture's distinctive competence and sustainable competitive advantage. These important concepts provide the strategic platform on which to build a marketing plan.

This chapter focused on the foundation for the customer-oriented marketing plan, which is the first priority. However, the marketing challenge today expands beyond customers. All of the venture's other stakeholders—such as users, investors, supply chain/channel partners, and employees—care about the customer, but they are also concerned with equity and image of the venture. Each stakeholder needs a relevant value proposition on why to stay engaged with the firm. So the same concepts of segmentation and positioning apply to them.

Endnotes

1. Susan Greco, "Reeling Them In," *Inc. Magazine* (January 1998): 52.
2. Ibid.

3. Some of these segmentation questions come from personal discussions and correspondence with Professor Yoram Wind of The Wharton School, University of Pennsylvania.
4. John Hagel and Arthur G. Armstrong, *Net Gain: Expanding Markets Through Virtual Communities* (Cambridge: Harvard Business School Press, 1997).
5. Robert McMath, "Look Before You Leap," *Entrepreneur*, (April 1998): pp. 135–139.
6. Ibid., 135.
7. This section comes from two interviews done by Leonard Lodish with Jill Beraud, the EVP Marketing of Victoria's Secret from 1995 to 2005 and the EVP/COO Marketing and Chief Marketing Officer of L Brands (formerly Limited Brands) from 2005 to 2008, on July 8, 2004, and April 6, 2005.
8. R.W. Keidel, "Manager's Journal: Say It with a Slogan," *Wall Street Journal*, June 16, 1997, p. A12.
9. C.K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Upper Saddle River: Wharton School Publishing, 2005), 211.
10. Ibid., 213.
11. Ibid., 222.
12. Ibid., 207.
13. Ibid., 209.
14. Ibid., 209.
15. Ibid., 220.
16. Ibid., 214.
17. Cris Prystal, "With Loans, Poor South Asian Women Turn Entrepreneurial," *Wall Street Journal*, May 25, 2005, p. B1.
18. Ibid.
19. Ibid.
20. C.K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Upper Saddle River: Wharton School Publishing, 2005), 229–230.
21. Ibid., 226.

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