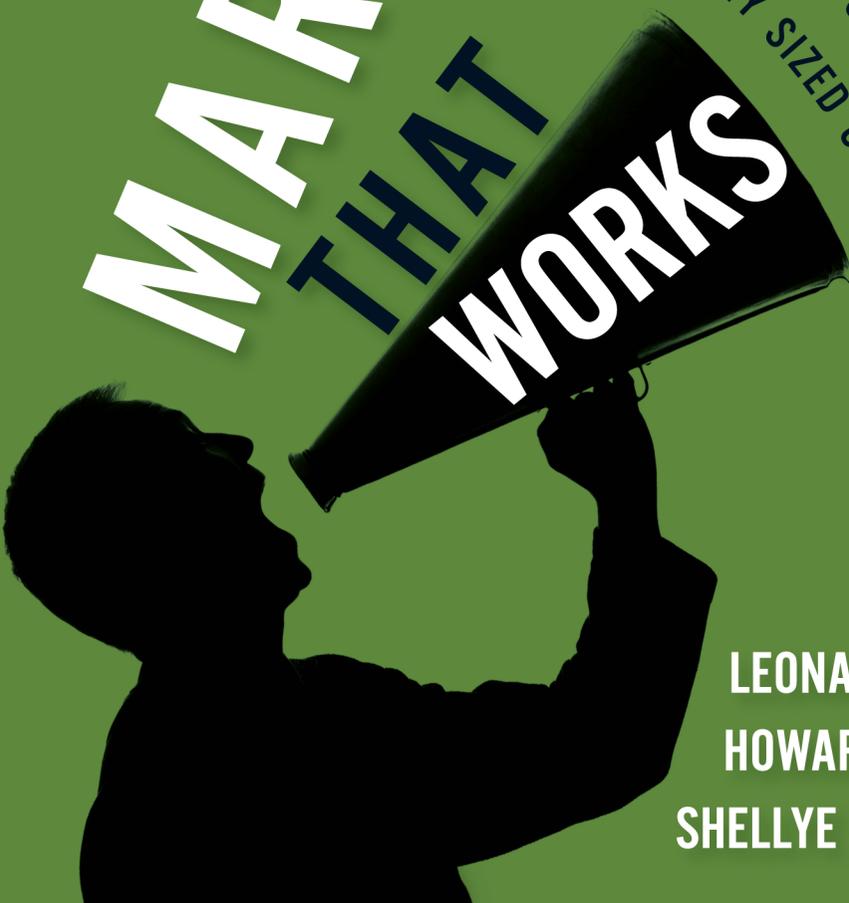


MARKETING THAT WORKS

HOW ENTREPRENEURIAL MARKETING
CAN ADD SUSTAINABLE VALUE
TO ANY SIZED COMPANY



LEONARD M. LODISH
HOWARD L. MORGAN
SHELLYE ARCHAMBEAU

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How Entrepreneurial Marketing Can Add
Sustainable Value to Any Sized Company

Leonard M. Lodish • Howard L. Morgan •
Shellye Archambeau

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© 2007 by Pearson Education, Inc.
Publishing as Prentice Hall
Upper Saddle River, New Jersey 07458

Prentice Hall offers excellent discounts on this book when ordered in quantity for bulk purchases or special sales. For more information, please contact U.S. Corporate and Government Sales, 1-800-382-3419, corpsales@pearsontechgroup.com. For sales outside the U.S., please contact International Sales at international@pearsoned.com.

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Printed in the United States of America

First Printing March, 2007

ISBN 0-13-702133-x

Pearson Education LTD.
Pearson Education Australia PTY, Limited.
Pearson Education Singapore, Pte. Ltd.
Pearson Education North Asia, Ltd.
Pearson Education Canada, Ltd.
Pearson Educación de México, S.A. de C.V.
Pearson Education—Japan
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Library of Congress Cataloging-in-Publication Data is on file.
This product is printed digitally on demand. This book is the paperback version of an original hardcover book.

*The authors dedicate this book to our best venture partners,
our spouses who have supported us in so many ways
for over 100 years of happily married life—
Susan Lodish for 41 years, Eleanor Morgan for 39 years,
and Scotty Scott for 22 years. We love you.*

ACCESSING MARKETINGALLOCATION.COM

Throughout this book, and especially in Chapter 11, we use a free tool which we have created to help optimize the tracking and management of marketing dollars. Following are instructions for accessing the site:

- On your first visit to the site, click on “First time user? Register here.”
- Your username will be your email address and you will choose your own password.
- Please type in BOOK for the registration key.
- After you have logged in you will be able to enter your own data into the system and it will be stored for you and available each time you return to the Web site.
- On future visits to the site you will only need to enter your email address (for the username) and your password.

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Acknowledgments

This book is an outgrowth of the Entrepreneurial Marketing Course that Len Lodish teaches in The Wharton School M.B.A. program. Aside from the invaluable help and wise counsel of Howard Morgan and Shellye Archambeau, there are many people who have helped the course and this book. Amy Kallianpur administered the questionnaire and tabulated the results, as well as developed some of the content on franchising. Jill Beraud, the Chief Marketing Officer of Limited Brands, and Len's student, was very kind to be interviewed about the marketing strategies that made Victoria's Secret so successful. Yosi Heber provided some very interesting conceptual structure for our discussion of Web search advertising. Lisa Cain designed and built the Web-based deployment software for the book.

The Wharton M.B.A. students who participated in the class for the past 10 years have been inspirational to us all. The entrepreneurs who have either spoken to the class or helped the book by sharing their real-world experience have been invaluable to this effort. A partial list of those entrepreneurs includes: Mark Stiffler of Synygy, Inc.; Craig Trautenberg, the franchise law guru at Nixon Peabody; Gary Erlbaum of David's Bridal and other ventures; Eric Spitz of Trakus, Inc. and the Know Fat Lifestyle Grill; Mel Kornbluh of Tandem's East; Bob Tumulo of Rita's Water Ice; Steve Katz of SEI Corp and many ventures; Jim Everett of Country Junction; Bill Gross of Idealab; Alan Markowitz of many ventures; Ralph Guild of Interep; Ken Hakuda of Allherb.com; Dwight Risky of Frito Lay; Barry Feinberg of many ventures; Chuck Holroyd and Mike Perry of IndyMac Bank; Barry Lipsky and Mort David of Franklin Electronic Publishing; Bob Brisco of Internet Brands; Andrew Beebe of Energy Innovations; Jim Simons of Renaissance Technologies; Gerry Shreiber of J&J Snack Foods; Marc Lore of

1-800-Diapers; Brett Hurt of Coremetrics and other ventures; Angeliqe Irvin of ClearAlign; Don McLagan and the management of Compete, Inc.; Max Lodish of Aerial-Media Services; Jake Lodish of Papa Jakes Subs; Steve Woda of Buy Safe; and Josh Kopelman of half.com and First Round Capital. Tovah Feldshuh, the actress, demonstrated to Len how valuable excellent sales execution and dedication are to a successful venture.

The Wharton Global Consulting Practicum has also been a source of rich entrepreneurial and strategy experiences of foreign companies entering the United States. Over the years, this book has benefited from the insights of Therese Flaherty, Guri Meltzer, Shlomo Kalish, Ron Waldman, and David Ben Ami of that program, as well as all of the M.B.A. students and faculty in Israel, Chile, Mexico, India, China, Peru, and Colombia who have added their insights.

Many colleagues at Wharton and other academic institutions, and other Marketing Scientists, have helped with concepts, methodologies, and paradigms. In particular, John Little, Pete Fader, Magid Abraham, Gerry Eskin, Abba Kreiger, Jerry Wind, David Reibstein, Russ Palmer, Terry Overton, Erin Anderson, CB Bhattacharya, David Aaker, Robert Nason, and Irwin Gross have been very helpful over the years. The participants in the Wharton-Insead “Leading the Effective Sales Force” program, which is co-directed by Erin Anderson, have also contributed many valuable ideas and insights over the years as well as being a beta site for the deployment software. Thirty years of experience working with Information Resources, Inc. has helped Len Lodish with significant learning about how consumers react to advertising and other marketing mix elements. Working with the entrepreneurs of the more than 100 companies of idealab! and First Round Capital has given Howard Morgan many exciting experiences with all types of marketing, both consumer and industrial.

We want to also thank Charlene Niles and the staff of Inc. Magazine and Ian Mac Millan, Greg Higgins, Mark Dane Fraga, and the staff of the Wharton Entrepreneurial Center and Wharton Small Business Center for making our survey possible and helping with its administration.

In addition, Shellye Archambeau would like to acknowledge the value of the experience gained working with the teams at IBM under Abby Kohnstamm; NorthPoint under Liz Fetter; Loudcloud under Ben Horowitz; and the entire MetricStream team. Her mentors and advisors over the years have helped shape her approach to marketing and sales. Special thanks go to Bill Campbell, Tim McChristian, Vinod Khosla, Mark Leslie, Robin Sternbergh, and Ken Thornton.



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 and target 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 modern-day 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 as we move into a more connected “global village” era. We have been guided in our thinking, not only by our academic research and practical experience with dozens of companies, but also by a survey of the Inc. 500 companies conducted jointly by the authors and *Inc. Magazine*. 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 startup firms, without a short-term cash flow, the longer term is impossible. Even if you work for a large, “deep pockets” organization, 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 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 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. In the nine years since the course was begun, over 30 different entrepreneurs have come to share their experiences. A favored presenter in each semester was Howard Morgan, who has over 25 years experience with over 30 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. Len Lodish has over 30 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.

This book's intellectual parent is the first book that came out of Wharton's entrepreneurial marketing class: *Entrepreneurial Marketing: Lessons from Wharton's Pioneering MBA Course*, by Len Lodish, Howard Morgan, and Amy Kallianpur. This book updates many of the concepts, methods, and paradigms from that book and expands 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 US Airways? While they all fly customers from one location to another, the perception of what it is like to use their services is very different. Other examples are Ikea, Levitz, and Ethan Allen. They all sell furniture; Ikea's positioning is affordable furniture solutions, Levitz offers a broad selection to fit multiple lifestyles, and Ethan Allen positions itself as high quality and upscale. Mis-targeted marketing would spend dollars attracting low-end buyers to Ethan Allen, when they are unlikely to buy. Proper targeting would get the college student and first-time buyers to Ikea, which has been extremely successful.

Marketing is of critical importance to the success of most entrepreneurial ventures. In a recent survey, fourteen 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, since the customers need to be educated with new products. Early attempts at pocket organizers, such as Franklin's Rex, did not succeed because enough of the market never found out the product existed.

As part of the preparation of a 1997 Inc. 500 list of the fastest-growing private companies in the U.S., the CEOs of those companies were asked to outline their greatest weaknesses and strengths. Their responses are shown in Table I-1. Note that sales and marketing strategies are perceived as their biggest strengths compared to other strategic assets.

Table I-1 1997 Inc. 500: Greatest strength and weakness

Numbers of CEOs Who Cite the Following as a:	Strength	Weakness
Sales and Marketing Strategies	145	19
Managing People	112	89
Financial Strategies	53	75
Information Technology	28	19
Product Innovation	12	2
Other	59	35

Entrepreneurial marketing is the tool that every manager needs to help his or her product or service be perceived as more valuable than the competition by target segments. Marketing strategies and tactics help guide the development of products and services 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 MARKETING PLAN ISN'T ENOUGH

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** and **segmentation** 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.

Segmentation answers the question: "Which is (are) my target market(s)?"

The marketing plan, including appropriate pricing, distribution channels, public relations, advertising, promotion, and sales efforts, flows directly from the positioning and targeting decision.

This one marketing plan is not enough, however. Although the basic plan is focused on getting acceptance and purchase of the product or service by someone who is paying money to the company, other positioning and marketing challenges are just as important. These 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**—Non-paying parties who may influence customers (e.g., viewers of advertising-supported programs)

Each of these stakeholders is concerned about the end customer product positioning and segmentation, 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 or she needs to manage **how his or her 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. Table I-2 summarizes this multidimensional positioning and multiple plans. Each chapter of this book will shade the boxes at the intersection of the appropriate stakeholders and which of the plans for Products/Services, Equity, or Image will be covered.

Table I-2 Multiple marketing plans required

	Products/Services	Equity/Shares	Image
Customers			
Users			
Investors			
Supply Chain/Channel Partners			
Employees			

As Bo Peabody points out in his book *Lucky or Smart*, an entrepreneur is always selling his or 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 plan 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 marketing plan since 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 most media companies—whether a new cable channel, an Internet site, or print publication—other businesses are the customers (advertisers), while these customers can only be drawn in by having lots of users. The plan for marketing to the customers needs to be quite distinct from the one designed to draw users.

THE IMPACT OF THE INTERNET ON MARKETING PLANS

The rise of the Internet has been one of the most explosive growth phenomena of our times. In the past decade, stock trading on the Internet has grown from zero to more than twenty million accounts. The success of specialized retailers—such as **Amazon.com** in selling books, records, and now everything, **eBay** in creating a global auction market, and **Google** and **Yahoo!** in targeted ad sales—has shown that direct one-to-one marketing to consumers, on a 24 hours/7 days per week basis, can lead to success. Thus, the Web is both an opportunity for new businesses, and a way to market old ones in a much more quantifiable, targeted way.

Getting visibility and name recognition as one of more than 30 million domain names now requires a major marketing effort or creative, leveraged approaches. The Web is important for its ability to connect an organization not only to its customers, but also to its suppliers, investors, and any other stakeholders who have an interest in its operations. Each such connection is an opportunity for marketing and promotion, and for the building of a brand. Any entrepreneur or marketer who ignores the Web does so at his or her own peril. This book will try to help describe how to leverage the Internet across the various constituencies.

CHALLENGES OF THE NEXT DECADE

There are a number of key challenges to any organization that will operate over the next decade. Globalization, corporate consolidation, ecological issues, increasing sensitivity to privacy and data ownership issues, and new governmental regulation must all be considered when designing marketing efforts.

Marketing across national boundaries creates challenges that once could only be profitably managed by large companies. Because the Internet immediately puts one's products and service information at the fingertips of the world, it is important to be ready for the global customer from day one. In addition, one must be prepared for competition from very far away, for on the Internet, no one cares if you're next door or halfway across the world, as long as the goods or services can be delivered in a timely, reliable manner. A publishing executive in Australia said he routinely orders his books from Amazon.com because they arrive in Australia within 48 hours, often months before the Australian bookstores get the same books.

Continuing merger and acquisition growth, and the increased number of strategic alliances, are altering the competitive structure of many industries. This creates opportunities for some ventures, and problems for others. Many new Internet ventures have been bought, often for large amounts of money, in order to reach their customer bases. Hotmail, started as a free email service, was purchased by Microsoft for more than \$200 million so that they could have access to the 8 million members. But their aggressive expansion has led to over 80 million Hotmail accounts. Similarly, Yahoo! bought Overture, and eBay bought half.com to access technologies and large user bases. Acquisitions are also a method for gaining or improving domain expertise, customer references, and credibility in target markets. EMC is known as a data storage company. But did you also know they are in the top 10 largest software companies? To move into information management solutions, they have acquired Documentum, Legato Systems, and Astrum Software, just to name a few.

Other key issues for entrepreneurial marketers in the next decade include the changing demographics, values, and expectations of the population. In the developing world, the boomer generation will begin retiring in the early 2000s. At the same time, the lesser-developed populations are beginning to acquire technology and consumerism. China, India, and other

parts of the world offer growth opportunities, but require closer cooperation with government, and better understanding of different cultures than most U.S. ventures have shown. The fact that these emerging growth countries are actively getting their citizens connected to the Internet allows foreign companies to inexpensively reach markets that would have been prohibitively costly with old media. Entrepreneurial marketers can take the lead in taking advantage of these new opportunities.

The key to any marketing that impacts sustainable competitive advantage is an understanding of “What am I selling to whom?” Chapter 1, “Marketing-Driven Strategy to Make Extraordinary Money,” begins to address this question.

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