

GLOBAL  
EDITION



# Entrepreneurship

*Starting and Operating A Small Business*

FOURTH EDITION



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ALWAYS LEARNING

PEARSON

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- How interested would you be in purchasing this hacky sack, if it were available? (Scale of 1 to 5 with 1 being “not at all” and 5 being “extremely”)
- How much would you pay for this hacky sack? (Numeric response)
- How many of these hacky sacks would you buy per year? (Numeric response—Could ask the question at a few price points to see what makes the difference)
- What suggestions do you have to improve this hacky sack? (Open ended)
- How old are you? (Numeric response)
- What is your occupation? (Open ended or could create a categorized list)
- What is your annual income? (Best if in categories)

Once you have chosen your market segment, you can really fine-tune your market research, because you now have to focus only on these customers—not on every potential customer in your market. Collecting data from the people in your market segment can be fun as well as financially rewarding. Here are a few questions you can adapt to your own product or service:

1. Do you currently use this type of product?
2. What brand of this product do you currently use?
3. Where do you buy it? Please be specific about the source, such as the name and location of the store, the direct-marketing representative, or Web site.
4. How much do you pay for it? (Probe for size and price, if appropriate.)
5. How often do you buy it?
6. Would you buy our product/service?
7. How much would you be willing to pay for it?
8. Where would you shop for it?
9. How would you improve it?
10. Now that you have seen/tasted/felt/smelled this product, what do you consider to be its closest competitor?
11. Is our product/service worse or better than those of our competitors? Please explain.

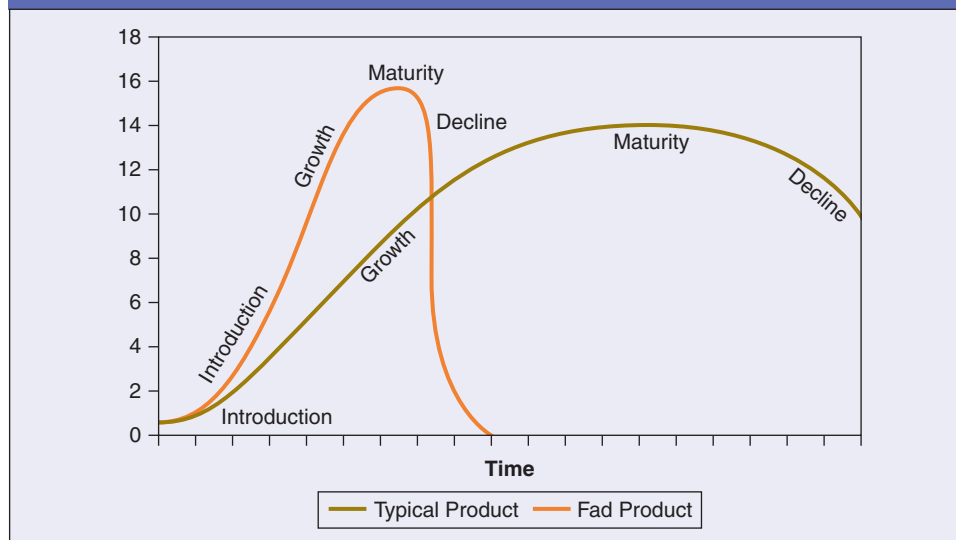
To learn more about creating questionnaires and administering survey research, visit your library for books on the topic. The creation and administration of surveys takes considerable thought and preparation including pretesting. You can use standard or common survey instruments to build yours.

## The Product Life Cycle

**product life cycle (PLC)**  
the four stages that a product or service goes through as it matures in the market—introduction, growth, maturity, and decline.

You will also need to analyze where your market is in its **product life cycle (PLC)**. The PLC is the set of four stages that a product or market goes through from its beginning until its end. **Figure 4-1** illustrates two product life cycles.

1. **Introduction.** Your product or service is in the invention and initial-development stages. It is new to the market and is essentially unknown, so you will need to introduce it to potential customers who may be curious about your product but not familiar with it. Marketing at this stage will require education and testing with price and presentation. Modification of the design or technology may be

**Figure 4-1** *Product Life Cycle*

required. When the personal home computer was first introduced, Apple's marketing was focused on convincing consumers how easy it would be to use. Apple used the same strategy in the introduction of subsequent products.

2. **Growth.** Once you achieve success in introducing your product or service to the marketplace, your organization will grow and inevitably invite attention from competition, as well as perhaps attract new entrants in the field. Perceiving your growth in sales, competitors now start entering your market, or more strongly defend their own market spaces, so efforts at this stage will have to focus on communicating your competitive advantage to consumers. Customer purchases increase dramatically; you have reached the limits of your current market.
3. **Maturity.** At this stage, consumers have become knowledgeable about both you and your competitors. The market has become relatively crowded, and there is no more growth as your product or service is currently offered. Marketing will need to focus on promoting brand loyalty. Stability of profits now depends more on cost strategies as demand has become relatively flat.
4. **Decline.** At this point, your competitive advantage has eroded, and sales and profits are declining. New developments will be necessary to revive the market's interest.

Product life cycles are applicable in different ways. For example, the Pet Rock, essentially a small stone that people were to pretend was a pet, had a very short life cycle. Such fad items attain popularity quickly and mature and decline equally rapidly. Other products, such as prescription drugs, will have longer life cycles because of patent protection, high market-entry costs, and their medical necessity for certain population groups. Ideally, you will look at the overall life cycle of a market to determine where your product or service will fit.

It is important for you to understand where each product or service is in the PLC. See **Figure 4-1** for an illustration of the PLC of a typical product and for a fad item. It is important to have a continuous flow of new products, so that your organization as a whole is sustainable. For example,



if you owned a pharmaceutical company, you would want to introduce new medicines well before the existing ones reached maturity/decline, so that there would be continuity in revenue. You would also want to find new uses for existing drugs, to extend their life cycles. For example, AstraZeneca's Seroquel was initially approved for schizophrenia and was used off-label for bipolar disorder. To extend Seroquel's life cycle, AstraZeneca sought U.S. Food and Drug Administration (FDA) approval for the additional use. This is far less costly and quicker than developing a new brand-name drug.

For services, the life cycle is essentially the same as for products. However, extending the life cycle can be easier for a service than for a product. Starting a new cycle could be as simple as modifying the delivery process.

In addition, if you are considering acquiring an existing business, it is critical to understand where in the PLC its products and services are. Are they all toward the end of their life cycles? Mixed? At the beginning? This will dramatically affect the future value of the company.

## Is Your Market Saturated?

Figuring out where your product is in the PLC will tell you whether your market is close to saturation. In other words, have all 3 million people in your market already bought a competitor's product? Nokia, for example, had a 39 percent share of the global market of \$1.1 billion in mobile phones.<sup>2</sup> But that market was nowhere near saturation. Meanwhile, Nokia introduced its Short Message Service (SMS), which allows e-mail messages to be sent between mobile phones in Finland. SMS quickly became Finnish teenagers' favorite way to communicate. Observing how quickly the technology spread among Finnish teenagers gave the Nokia management ideas about how they would market SMS in the 140 countries where they sold cell phones.

## Market Positioning: Drive Home Your Competitive Advantage

### Learning Objective 4

Position your product or service within your market.

**positioning** distinguishing a product or service from similar products or services being offered to the same market.

After deciding which market segments to target, an entrepreneur will need to figure out what position the company should try to occupy in those segments. The *position* of a product is its relative place in the customer's mind compared with its competitors. The goal of market **positioning**, therefore, is to distinguish your product or service from others being offered to the market segments you have targeted. You can do that by focusing on your competitive advantage. "Have It Your Way," Burger King promised, driving home its competitive advantage—that at Burger King you can specify exactly how you want your hamburger prepared and garnished.

As you can see from the Burger King example, positioning involves clearly communicating your competitive advantage to the consumer and demonstrating how your product/service is different. Your goal is to position your product/service clearly in the mind of your target market as the brand that provides that difference. Use the following format to develop a positioning statement for your business:

*(Your business name/brand) is the (competitive industry/category) that (provides these benefits, or points of difference) to (audience/target market).*

<sup>2</sup>Mark Landler, "Nokia Pushes to Regain U.S. Sales in Spite of Apple and Google," *The New York Times*, December 10, 2007.

Here is an example: *Microsoft is the leading global software producer that provides affordable computer solutions to businesses.*

By the time you have completed the four steps of your marketing plan, you will know your potential customers, your competitors, and your market intimately. It is a lot of work but well worth it. Make a commitment to let marketing drive your business decisions, and you will greatly increase the odds that your business will be successful.

## Developing a Marketing Plan

After you understand how customer-focused marketing should permeate your business, you will be ready to develop a plan for introducing your product to your market. The marketing plan can serve as a stand-alone document or be part of an overall business plan. Either way, it should be a functioning, evolving part of your business. We began with customer analysis because before you can develop a marketing vision, you will need to know who your customers are and what they want.

Q: Why does a customer go to a hardware store to buy a drill?

A: Because she needs to make a hole.

The *hole* is what the customer needs, not the drill. If the hole could be purchased at the store, the customer would not bother with the drill. If you are marketing drills, therefore, you should explain to the customer what good holes they make. If someone invents a better hole-maker, drill manufacturers will soon be out of business.

Your marketing plan must include an understanding of prospective customers and their wants, needs, and demands. It should also identify and analyze market segments. The plan should incorporate industry research and trend analysis. It will state your market-positioning approach. In short, a marketing plan looks at all aspects of the market space for your enterprise, from the broadest perspective to the narrowest.

## Chapter Summary

Now that you have studied this chapter you can do the following:

1. Discriminate between marketing and selling.
  - Marketing is the business function that identifies your customers and their needs and wants.
  - Through marketing, your business will come to mean something clear and concrete in the customer's mind. Above all, marketing is the way a business communicates its competitive advantage to its market.
2. Summarize how market research prepares you for success. It is the process of finding out who your potential customers are, where you can reach them, and what they want and need.
  - Getting the information directly from the subject: primary research.
    - Personal interviews
    - Telephone surveys
    - Written surveys
    - Focus groups
    - Observation
    - Tracking

- Getting information indirectly: secondary research.
  - Online searches
  - Books and articles
  - Trade associations, chambers of commerce, public agencies
  - Review of books and records
  - Researching customers and industries
- 3. Choose your market segment and research it.
  - Before you can develop a marketing vision for your business, you will need to know who your customers are and what they want.
    1. A market segment is composed of consumers who have a similar response to a certain type of marketing.
    2. Segmentation methods:
      - a. **Geographic.** Dividing a population by location.
      - b. **Demographic.** Dividing a population based on a variable like age, gender, income, or education.
      - c. **Psychographic.** Dividing a population by psychological differences such as political opinion (conservative, liberal) or lifestyle.
      - d. **Behavioral.** Dividing the market by observable purchase behaviors such as brand loyalty or responsiveness to price.
- 4. Position your product or service within your market.
  - The goal of market positioning is to distinguish your product or service from others being offered to the same market segments. You can do that by focusing on your competitive advantage.
  - Use the following format to develop a positioning statement for your business: (Your business name/brand) is the (competitive industry/category) that (provides these benefits, or points of difference) to (audience/target market).

## Key Terms

brand  
demographics  
market research  
market segment  
marketing

positioning  
primary research  
product life cycle (PLC)  
secondary research

# Entrepreneurship Portfolio

## Critical Thinking Exercises

### 4-1. Step One: Customer Analysis

Describe the typical consumer your business plans to target.

Segment/Attribute	My Customer
Geographic 1. 2. 3.	
Demographic 1. 2. 3.	
Psychographic 1. 2. 3.	
Behavioral 1. 2. 3.	

What need(s) do you plan to satisfy for this customer?

### 4-2. Step Two: Market Analysis

- How large is the total market for your product or service? How did you arrive at this figure?
- Which segment of this market do you intend to target? Why? How large is the segment?
- Describe your segmentation method. Why did you choose this method?

### 4-3. Research can give you a great deal of information, but you will have to use your math skills to make it more useful. For example, imagine you are interested in opening a dog-care service and you have gathered the following facts:

- In 2000, the U.S. Census Bureau estimated that there were 2.67 people per household.
- According to your city's public records, the population of your community is 80,000.