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Purdue Institute for Family Business

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Market Development for Your Product

Joan Fulton and Renee Wiatt

What is Marketing?
Marketing is anticipating the needs and wants of targeted customers and managing the process through which these needs and wants are satisfied. Of course, you want to navigate this process in the most profitable way possible. The process of marketing begins with anticipating and ends with profitability for you.

Thus, marketing can best be thought of as a mind set or attitude. Marketing is definitely a process and something that you work at every day. It is a way of looking at the world through your customers' eyes. By putting your customers first and continuously exploring what your customers want and will pay, you find that mix that meets your customers' needs and is profitable for your business.

What is the Difference between Sales and Marketing?
Marketing is a long-term concept, while selling is a short-term concept. Marketing involves adapting and adjusting the total business to meet the changing needs of customers that will grow the business over time. In marketing, businesses take steps that will support sales and make sales flow more naturally and easier in the future. Selling involves activities that get sales today, pay the bills, and generate a positive cash flow. While marketing looks at customers in groups or segments, sales looks at customers one-by-one.

Market Segmentation & Targeting
Your firm CANNOT be "all things to all people". There are too many different customers all with different needs. The solution to this challenge is MARKET SEGMENTATION!

Market Segmentation is a critical tool for your business – and when you use this tool effectively it can be very important for the success of your business. It is vital that you keep the following in mind when you are segmenting (or dividing) your marketing:

- **Definable**: Your market segment is definable when you can write a half page description of each market segment that includes: a description of the customers in the segment; the needs of the customers in the segment and; the wants of the customers in the segment.

- **Accessible**: Your market segment is accessible when you (i) have a way of reaching everyone in the target segments through getting mailing (e-mail, numbers for text messages) lists for all potential customers in each segment; (ii) have the capacity to regularly communicate with each customer in each segment (this requires that you have the necessary computer/electronic capacity); and (iii) are able to connect with your potential customers. Be honest with yourself here – as this is an area where you may need to make some investments to get complete lists and possibly upgrade your electronic communication capacity.

- **Actionable**: Your market segment is actionable when you are able to get your product/service to the customers in each of your target segments at the time and place and in the form that they desire. In addition, once you have sold the product/service to them, will you need to be able to provide the service that the customers in these target segments need for complete customer satisfaction? If your business is able to provide intensive one-on-one service to customers then it is appropriate for you to include target segments of customers who demand this sort of service. If your business is not able to provide such intensive service then you should focus on market segments where the customers value the "purchase and leave" approach.

- **Profitable**: Remember the importance of making a profit! Thus, for each market segment that you will be targeting carefully crunch the numbers to determine if this segment will be profitable for you. In doing this you need to calculate the revenue (price times quantity) you will receive and then subtract your costs. Your costs will include the costs to produce the product/service as well as all costs to service these customers – with delivery and follow up service being just a couple of examples.

- **Growth Potential**: It is important to think about the long term viability of your business. Thus when considering customer segments evaluate the growth potential for each segment – and obviously the segments where business will grow over time are more attractive to you and your business.

Remember – your firm can't be "all things to all customers" – so use market segmentation.

Important Criteria for Segmentation
The following criteria provide a useful "checklist" for you to identify whether a segment you have described will be a useful segment. All four of these criteria should be met.

1. Identifiable: If you can write a paragraph describing the market segment where you clearly delineate key characteristics of the customers your segment meets the identifiable criteria.

2. Measurable: To meet the measurable criteria you need to be able to calculate the expected value of business you will have with the customers from the segment on an annual basis. Then you need to be able to calculate the costs associated with that business and thus profit.

3. Accessible: The accessible criteria is associated with being able to communicate with and reach all of the customers in the target segment. Being able to communicate with and reach the customers involves having contact information (e-mail, numbers to text message, etc.) as well as the means to quickly send messages (having computer/electronic capacity).

4. Actionable: A market segment is actionable when your company is able to serve the customers in that market segment. Ability to serve a customer segment will be influenced by the level of service that a segment demands, the geographic location of members of a segment and physically reaching them; the size requirements for that segment (are they buying bulk or small unit packages and what can your firm deliver), timely responsive, etc.. Carefully consider how your firm can meet the actionable criteria.

Determining the Value Proposition for Your Product

Joan Fulton and Maria Marshall

As an entrepreneur, you are passionate about your business. You may have many goals for your business, such as demonstrating that you can create and produce a new product. Undoubtedly, making a profit is one of your goals. Your success and ability to continue your business depend on you being profitable. In other words - you want the value of your "revenues – costs" to be as great as possible. In this article, we will focus on the revenue component of the profit equation.

The Value Proposition is all about finding the product/service combination that will allow you to achieve the highest revenue (through high price and high sales quantity). The way you accomplish this is to find the product/service combination that provides your customers' greatest value. You then create a win-win scenario – you provide excellent value for your customers, and they are pleased to pay you for the value. Note: The Value Proposition focuses on REVENUE = PRICE x QUANTITY. You want to deliver a product/service mix to your customers, so you receive the highest revenue.

The resource-based view of competitive advantage provides a helpful perspective here. You will be more profitable when you provide a unique product/service mix – and unique means not only being different but offering something better than your competitors - that customers want and will PAY for. You are working to achieve a sustainable competitive advantage and can achieve this when your product/service is:

1. Valuable in the market – in that it creates value for customers;
2. Rare – in that no other competitor has these products/services;
3. Not substitutable – in that, your competitors would have trouble obtaining or developing similar or substitute products/services; and
4. Transferrable to other markets.

Unique Selling Proposition

The Unique Selling Proposition (USP) is another way to examine how you can achieve the greatest value for your customers. A Unique Selling Proposition is a key customer benefit of a product or service that answers the critical question for every customer: "What's in it for me?".

- We ask you to think about the actual product/service that you described above and the core benefit that it provides for your customers. Then list the secondary benefits your product/service provides for your customers.
- Next, list 2 – 3 facts about your product's USP. How are you communicating with your customers? Are you effectively highlighting your product's USP? Are there ways to change your communication to make it easier for your customers to realize your product's USP? Are there product features or service components that you could change (add or delete) to enhance your product/s USP?

Best Quality

Delivering the best quality is very important for your business. Virtually every entrepreneur, when asked, will respond that they have the best quality. But how can this be? Not every firm may be the best. Determining what is really meant by quality for your business, how quality is measured, and how your firm is performing with respect to quality is critical for delivering value to your customers and success for your business.

The first step in figuring out the quality challenge is to define what quality means for your business. It is important to understand your industry's standard and how you meet and exceed that standard. It is often the case that you are offering a product/service mix or a product delivered with components of service. Thus, you will have more than one measure of quality or more than one metric. Examples of quality metrics could be product specifications, service time, and customer satisfaction.

Secondly, how is quality measured for each of the metrics? For example, the industry respects your product's technical specifications, average waiting time is a common measurement for service time, and the percentage of customers who provide a "satisfied" or "very satisfied" rating is common for customer satisfaction.

Third, and perhaps most importantly, we urge you to critically evaluate YOUR product/service mix compared to your competitors. How does the quality that you are delivering compare with your competitors? In what areas are you above average? In what areas are you below average? What changes can you make to improve your quality scores relative to your competitors?

Developing a Value Proposition
Developing a solid value proposition is critical to success for your business. First, evacuate and assess who is your target market. Second, what do the customers in your target market need and want? What is the business opportunity? Third, be able to fill in the blanks in the following:

The ________________ (product name) is a __________ _______(product/service category) that ______________ (specify the key benefit), _________________ unlike (other primary competitive alternative). Our business ____________________ (primary differentiation of what makes the product unique – facts of benefits).

Creating Financial Projections

Renee Wiatt and Joan Fulton

Financial Statements
There are two basic financial statements that we will cover in this article: balance sheets and income statements.

Balance Sheets
Balance sheets can provide a glimpse of your organization's overall financial health, including assets, liabilities and owner's equity. The balance sheet includes current and noncurrent assets, current and noncurrent liabilities, and owners' equity. Balance sheets center around the following equation: Assets=Liabilities + Owners' Equity

- **Assets.** Assets are articles owned by the business that contribute to the company's net worth, or what the business owns. Current assets are those which are fairly liquid and accessible for the business to use to pay debts or bills, while noncurrent assets are those which are illiquid or cannot be accessed quickly to pay bills. Examples of current assets include: cash (or equivalent), prepaid expenses, inventory, marketable securities, and accounts receivable. Examples of noncurrent assets include: land, patents, trademarks, brands, goodwill, intellectual property, and equipment (used to produce goods and services).

- **Liabilities.** Liabilities are things that the business owes and can fall into two categories: current and noncurrent. Examples of current liabilities are: payroll expenses, rent payments, utility payments, debt financing, accounts payable, and other accrued expenses. Examples of noncurrent liabilities are: leases, loans, bonds payable, provisions for pensions, and deferred tax liabilities.

- **Owners' equity.** Owners' equity is the difference between what the business OWNS and what the business OWES. Hopefully, owners' equity is positive, thus implying that the business has a positive net worth. The owners' equity represents the owners' interest or the value that they have vested into the business.

Income Statements
The income statement assesses overall financial performance of the business for a given period of time. Over a specified period of time, the income

statement can summarize revenue and expenses. Income statements can be reported quarterly, semi-annually, or annually depending on what the company needs and the use of that income statement. Most importantly, income statements can be used to compare financial trends of the business over time.

Some common income statement components (and definitions of those components) are included below:

- Revenue: Amount of money the business brings in
- Expenses: Amount of money the business spends
- Costs of goods sold (COGS): Cost of producing the goods/services that the business sells
- Gross profit: Total revenue less COGS
- Operating income: Gross profit minus operating expenses
- Income before taxes: Operating income minus non-operating expenses
- Net income: Income less taxes
- Earnings per share: Net income divided by the total number of outstanding shares
- Depreciation: The lost value of an asset over time
- EBITDA: Earnings before interest, depreciation, taxes, and amortization

Creating Financial Projections
The key to creating financial projections is to ALWAYS BE REALISTIC! It is also great to have past financial statements to aid in creating projections. However, if those are not available, you can still project items such as revenue and costs. It is always best to create 3 sets of projections:

- Optimistic (best case scenario)
- Expected (middle of the road)
- Pessimistic (worst case scenario)

Types of Costs
There are a number of different types of costs that can enter your equation when forecasting costs for your operation. Some costs and examples are explained in the next column:

- Direct costs: cost of producing your product (examples: labor, material, distribution costs)
- Indirect costs: costs to the business not trackable to producing a specific product (example: utilities)
- Fixed costs: costs that do not change related to the level of production (examples: rent, salaries of executives, depreciation of machinery)
- Variable costs: costs that DO change related to the level of production (examples: hourly employee wages and material costs)

Projecting costs
Once again, when projecting costs, use past financial records when they are available. List out some expected direct costs, indirect costs, fixed costs, and variable costs. Calculate the average cost to produce your good per unit, then consider:

- Will your costs go up?
- Do you need new machinery or updated buildings?
- Is your rent or employee cost increasing?
- How stable are input prices?
- Are any of your inputs scarce?
- Is there seasonality involved with any of your input costs?

Using the INventure Business Planner to Create Scenarios
In INventure, you can enter your three scenarios (optimistic, expected, and pessimistic) to see how each would impact your bottom line. For your expected case (most likely), you can simply enter what you expect will happen. For the optimistic case, you should enter your best-case scenario for high selling prices in the market for your product and large quantities sold to customers. For your pessimistic case, you would be expecting for sales to be down and selling prices to be low. In order to create copies of your business plan to project three scenarios, you start under the “Your Business Plans” page. Once you check the box to the left of the base business plan, you can click “Copy” to create a duplicate. When creating copies, just be sure to name each case separately so that you can keep track of the scenarios.

Alternative Funding Sources

Joan Fulton and Maria Marshall

Your business needs financing to be successful. It is most likely the case that you will not have enough funding from internal sources to meet the operational and capital needs of your business. Thus, you want to stand ready to access financing from alternative sources. Three general sources of funding for your business can be: banks and other financial institutions, investors and venture capitalists, and grants.

We encourage you to develop and maintain a good relationship with your bank and banker. Have your completed business plan with you when you approach the bank initially and keep your business plan up to date. Keep in mind that you will be working with your banker for financing to meet both operational expenditures and capital expenditures.

Investors, sometimes referred to a venture capitalists or angel investors, may be interested in investing in your business. Once again, preparation on your part is a key component. Have your completed (and up to date) business plan ready when you meet with a potential investor. Be prepared with your elevator pitch (the end of this module will help you out here). Keep in mind that when you are communicating with (and negotiating with) investors that it is a "two-way street". The investor is looking to make a return on their investment so they will want a piece of the pie. Be sure that this arrangement fits the needs for you and your business.

Writing a Successful Grant Proposal
You may look to a grant from either a governmental or non-governmental organization (NGO) as a way to meet some of the financing needs for your business. This will require developing and writing a successful grant proposal. While this task is daunting at first, there are specific steps to follow that can increase the chance of success.

Keep in mind that grants involve the granting agency providing money to you or the other firms. The granting agency has their own mission and objectives. Thus, they will award grant funding to project that will enhance their mission and objectives. With this in mind, when you are considering a grant opportunity ensure that the grant is a good fit for your project. Trying to fit "a square peg in a round hole" can only lead to you doing a lot of work and not being successful. Seek out and embrace those opportunities that are a good fit.

I. Proposal Preparation
Preparation is a key to success, and this certainly holds true when it comes to grant proposals. Begin by making a list of the goals and objectives of the grant program that you are planning to apply to. Then carefully evaluate your project against these goals and objectives. Next make your list of tasks to be accomplished. Be sure and identify who is responsible for each item on the list. At this point set a due date for each item on your list – and be sure that those due dates are spaced out sufficiently so that you can meet the deadline for the full proposal.

II. Writing the Grant Proposal
The actual writing of the text of your grant proposal is critical. This can be time–consuming so we encourage you to plan accordingly. When you first start the writing process it may seem overwhelming. We understand this – we have been in this position ourselves! Here are a few key things to keep in mind that will help build your confidence as you conduct the writing phase.

Priority Problem – be sure and communicate in your text (so the reviewers can clearly see) that your project solves a priority problem for the granting agency. This is really just another way that you demonstrate the value that your business is delivering.

Document Key Partnerships – everyone knows that you most often cannot complete a project all on your own. Partnerships are critically important. When writing the text of your grant proposal be sure and document who your key partners are; what each partner is contributing to the project; and what each partner is getting from the project.

Draft, Review, Edit – there is no getting around the fact that a successful grant proposal is only achieved with many rounds of drafting, reviewing and editing. Be sure and allow plenty of time for this part of the proposal development. We also encourage you to get others to read and critique your drafts – as responding to critiques is a great way to improve the proposal.

III. Developing the Budget
The budget is a critical part of any grant proposal and an area where reviewers often pay significant attention. First, ensure that all items you have included in your budget are allowable expenses for this grant. Successful grant proposals are ones where the budget is reasonable. Budgets that are too high or too low will get poor ratings from reviewers and most often will not get funded. Provide enough detail so the reviewers know that you are serious and have really thought through what is needed for the project to be successful.

The final component of the budget is the budget narrative, which is composed of text to explain the budget that is presented in table form. Some reviewers will comprehend text more quickly than the budget table, which makes this section key.

IV. Putting it all Together
An effective grant proposal involves numerous sections. Be sure and plan sufficient time to put it all together. As you develop your plan for the grant proposal, we encourage you to assign one of your team members the task of pulling all of the components together. These include all documents, verification of any matching funds that the granting agency is asking for and letters of support.

V. Meeting the Deadline
Most often deadlines for grant proposals are HARD DEADLINES. We encourage you to develop your plan so you are submitting the proposal with some time to spare. In that way, if you encounter internet problems (which can occur at your end or at the end of the granting agency) you will have time to adapt and still meet the deadline.

Developing and Delivering Your Elevator Pitch
An Elevator Pitch is a great way to communicate your product's value and benefits to potential investors, the public and your customers. An elevator pitch is a short (often about 2 minutes) presentation. It got its name from the fact that traditionally took about 2 minutes to ride the elevator from the lobby to the executive suite of an office building. Now, an elevator pitch can vary in length depending on the situation.

Given these different audiences we encourage you to have different elevator pitches for different audiences. For example, the elevator pitch aimed at your current customers will focus on the features, advantages and benefits (or in other words value) of your current product/service mix. The elevator pitch targeted to community leaders and the general public might focus on the jobs that you have created, or another community benefit that your business is providing. When delivering an elevator pitch to potential investors you will want to highlight the potential return that they can expect.

Notice that in the previous paragraph we highlighted a need that each different target group has. Your elevator pitch should isolate that need and prioritize key points for that particular audience. You are demonstrating how you and your business bring value to your customers and the community.

Here is a list that can help you as you develop and deliver your elevator pitch.

1. List at least 4 types of audience members
2. What value do you bring to each of these individuals?
3. Where would you meet them and have between 30 seconds and 2 minutes to communicate with them?
4. How much of their attention would you expect to have?
5. How much time would you have?
6. What are two or three key points you want to highlight to each of them?
7. What do you want to accomplish with this pitch?
8. How will you open the pitch?
9. How will you close the pitch?

The PIFB team of Maria Marshall and Renee Wiatt have filmed videos to kick off the *Family Business Video Series.* The videos in the series are linked below. Continue to stay engaged with our Institute and our YouTube Channel as we release more videos.

- What is a Family Business?
- Social Structure of the Family
- Fairness and the Family Business
- Dealing with Conflict
- Measuring & Evaluating Family Functioning

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