

**THE
ENTREPRENEUR
& SMALL
BUSINESS
MARKETING
PROBLEM
\$OLVER**



William A. Cohen

THE ENTREPRENEUR AND SMALL BUSINESS MARKETING PROBLEM SOLVER

William A. Cohen



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THE ENTREPRENEUR AND SMALL BUSINESS MARKETING PROBLEM SOLVER

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*This book is dedicated to
the memory of my mother,
Theresa B. Cohen*

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W.A.C.

== PREFACE ==

When I first started my entrepreneurial activities some years ago, much of the information that I wanted to know about business simply wasn't in one place where I could get hold of it easily. As a result, in order to get the answers to my numerous questions, I spent many hours over many days at several different libraries. This was not only a waste of time; it actually cost me money. Countless opportunities were lost because I did not obtain the information until it was too late to be of use.

To save other entrepreneurs from having to go through the same trouble, I wrote *The Entrepreneur and Small Business Problem Solver*. It became a best seller, and is currently in its second edition. But the information contained in that book was massive. I couldn't put in everything that I wanted to on marketing. My editor and I put our heads together and decided to develop separate books on each of these areas. *The Entrepreneur and Small Business Marketing Problem Solver* is part of this solution. Not only is the book updated, it contains new chapters on mail order and government marketing, and a complete sample marketing plan is in the appendix.

As a marketing professor and Director of the Small Business Institute at California State University Los Angeles, as well as a management consultant for small and large businesses, I am continually amazed at the variety of information about small business and the starting of small businesses required by investors, entrepreneurs, and established small businesspeople. Most of this information is available . . . somewhere. However, it must be obtained at the cost of two of your most precious resources: time or money. Either you must spend your valuable time, or a management consultant must be hired at \$100 an hour or more to provide the answer. Sometimes a consultant's expertise is needed and well worth the fee. But many times the answer is simple and easily understood—if only you knew where to look.

The purpose of this book is to place this essential information about marketing at your fingertips. In it I have gathered together the answers to the questions having to do with marketing most frequently asked of me by business clients and entrepreneurs whom I help. The book is designed to do the following things for you:

1. Save hours, days, and perhaps months of research for any marketing problem that you want answered.

2. Save the cost of hiring consultants when such consultants are not necessary to solve your problem.
3. Enable you to know when and how to get help if you do need it, and how to do so at the lowest possible cost.

In one sentence, the book's purpose is this: It was written to help you to be successful in marketing with your small business or entrepreneurial project. Each chapter was designed to stand by itself and assist you with a certain class of marketing problems. Chapter 1 covers marketing research. Marketing research is very important. It can determine how to make your business successful without a huge investment in money. Chapter 2 shows you how to find and introduce a new product. Chapter 3 tells you the right way to price your product or service. Chapter 4 gives you the complete story on advertising and publicity, and how each can be accomplished at a low cost. Chapter 5 discusses the important area of personal selling and how to develop your own sales force. Chapter 6 is all about the use of trade shows to promote your products. Trade shows can really boost your sales. Chapter 7 takes you step-by-step through the development of your own marketing plan. Chapter 8 describes important mail order secrets for selling your products or services, and many entrepreneurs have made their fortunes that way. Chapter 9 is about selling your products or services to the U.S. government. That's a multibillion dollar market buying everything from toys to weaponry.

In the appendixes you will find addresses and phone numbers of important government agencies, and trade associations and better business bureaus that can assist you in different ways with your marketing. You will also find a complete sample marketing plan. My students who have prepared marketing plans like this have sold them for \$5,000 or more.

A glance at the chapter titles and subheadings will give you some idea of the concrete assistance this book can give to anyone interested in beginning a small business or anyone who has already established one. Throughout, specific examples have been used to show you step-by-step what to do, and forms and checklists are amply supplied.

If this book doesn't save you at least five times its cost the first time you use it, I will be surprised. If the use of the book enables you either to save or make at least 1,000 times its price during the years you use it, I won't be surprised at all.

Pasadena, California
September 1991

WILLIAM A. COHEN

== CONTENTS ==

1. Marketing Research / 1

Marketing Research—What It Is and How It Can Make Money for You. Three Important Categories of Marketing Research. Exploratory versus Specific Research. The Marketing Research Process. Checklist for Appraisal of Your Research Study. Sources of Secondary Research. Sources of Additional Information.

2. How to Find and Introduce a New Product / 41

The Importance of New Product Introduction. The Advantages of New Product Introduction. Product Interest Checklist. Screening Questions. Eighteen Sources for New Products. How to Decide Which New Product to Develop or Introduce. How to Beat Your Competition in New Product Introduction and Development. Sources of Help for Developing and Introducing New Products. Your Own Product Survey. Twenty-One Warning Signals. Sources of Additional Information.

3. How to Price Your Products and Services / 61

Cost versus Price. The Importance of the Pricing Decision. The Emphasis on Nonprice Competition. When Should You Consider Pricing or Repricing?. The Economic Theory of Pricing. How to Price a New Product. How to Estimate Demand versus Price. Second Phase Pricing. What to Do if No One Buys. Pricing Policies. Discount Policies. The Robinson–Patman Act of 1936. Two Checklists for Pricing. Sources of Additional Information.

4. Advertising and Publicity / 83

The Importance of Advertising. You Can Compete with the Big Companies. How to Develop an Advertising Program. Should You Employ an Advertising Agency? How to Get Free Advertising through a Publicity Release. How to Get Newspapers All Over the Country to Give You Free Publicity. Sources of Additional Information.

5. Personal Selling/ 113

The Importance of Personal Selling. The Advantages of Personal Selling. The Big Disadvantage of Personal Selling. What Different Sales Jobs Do Salespeople Do? Three Keys to Improving Sales by Developing a Superior Sales Force. How to Measure the Performance of Your Sales Personnel. How to Improve Your Salesperson's Performance. Whether to Use Sales Territories. How to Establish Sales Territories. Whether to Use a Sales Representative. How to Select a Sales Representative. Sources for Finding Sales Representatives. Important Advice about Working with a Sales Representative. Sources of Additional Information.

6. How to Make Money with Trade Shows / 137

What Is a Trade Show?. Advantages of Trade Shows. Setting Objectives. How to Decide Which Trade Shows to Attend. How to Calculate the Space You Will Need for Your Exhibit. How to Design Your Display. Things to Do before the Show. Things to Do during the Show. Things to Do after the Show. Sources of Additional Information.

7. How to Develop a Marketing or Business Plan / 160

A Marketing Plan Can Make You Rich. What a Marketing Plan Will Do for You. The Structure of the Business/Marketing Plan. Hints for Writing Your Marketing Plan. Marketing Plan Development Form. Sources of Additional Information.

8. Mail Order Marketing / 183

Mail Order Successes. What Qualities Are Required?. Selecting a Product. Evaluating Your Products. Pricing Structure. Forecasting Sales. Testing—Mail Order's Secret Weapon. Advertising. Special Considerations. Copywriting Checklist. Keep Good Records. Repeat Business—Key To Maximum Profits. Sources of Additional Information.

9. How to Sell to the Government / 205

How to Locate Your Customer. Contacting Your Customer. Preparing a Presentation. How to Write a Proposal. How to Negotiate a Government Contract. Sources of Additional Information.

Appendix I Small Business Administration Field Offices / 218**Appendix II Better Business Bureaus / 223****Appendix III Trade Associations / 234****Appendix IV Upstart Computers: A Sample Marketing Plan / 240**

== CHAPTER 1 ==

MARKETING RESEARCH

MARKETING RESEARCH—WHAT IT IS AND HOW IT CAN MAKE MONEY FOR YOU

who
Marketing research is the gathering, recording, and analyzing of information about problems relating to marketing. It will help you to identify who your market is as well as which methods will best satisfy the needs of your market. But it encompasses many other aspects of marketing, including new product introductions, pricing, advertising, consumer behavior, and so on. So important is marketing research that certain basic marketing strategies, such as market segmentation, in which you identify a specific portion of the market and concentrate your resources on selling to that one segment, or product differentiation, in which you differentiate your product from that of a competitor in such a way as to best appeal to potential buyers, would be absolutely impossible without it.

Among the many things that marketing research will tell you are the following:

1. Who are your customers and who are your potential customers?
2. What kinds of people are your customers? (This includes demographic categories, such as age, income, and education, and psychographic categories, such as interests and preferences.)
3. Where do your customers live?
4. Why do your customers buy?
5. Do they have the ability to pay?
6. Are you offering the kinds of goods and services that your customers want?
7. Are you offering your products or services at the best place, at the best time, and in the correct amounts?
8. Are your prices consistent with the value your customers place on the product or service that you are selling?

9. How are your promotional programs working?
10. What do your customers think of your business and its image?
11. How do your business and your business procedures compare with those of your competitors?¹

Correct use of marketing research can mean amazing profits for your business and tremendous advantages over your competitors. A famous example took place in the early 1960s. Ford, along with two other major American motor companies, had developed cars to compete with foreign cars such as the Volkswagen. Ford's entry had been the Falcon, introduced in 1959. As the years passed, the numbers of Ford Falcons that were sold began to decrease as a percentage of Ford's total sales. This was also true for the competing cars offered by the two other American companies. Ford might simply have concluded that American small cars were no longer wanted. Instead, Ford did marketing research to find out more about the falling off of Falcon sales. During this research, Ford discovered an interesting and important fact: while sales of the Falcon were declining, sales of sporty options such as bucket seats and a special interior were increasing. This was due primarily to the greater numbers of young adults who were purchasing the vehicle. Ford's careful study of the market research findings led the company to put out the Ford Mustang, introduced in 1965. This sporty vehicle demolished all previous records for sales and developed a new market after which competitors followed as best they could, some two to three years behind. The head of Ford's Mustang project was none other than a young engineer by the name of Lee Iacocca.

But successful use of marketing research is not limited to major companies such as Ford. Thousands of small firms and entrepreneurs have used marketing research successfully to carve out huge shares of their respective markets. An optical firm totally turned its company around and doubled sales within a year by identifying its customers. A mail order entrepreneur sold \$10 million worth of a single product through marketing research techniques. A small computer firm successfully took on IBM for a segment of the total computer market and won through the correct application of marketing research.

In this chapter you will learn the same techniques used so successfully by these and other firms.

THREE IMPORTANT CATEGORIES OF MARKETING RESEARCH

Three categories of marketing research important to any small business are internal information, secondary research, and primary research. Let's look at each in turn.

¹ Adapted from J. Ford Laumer, Jr., James R. Harris, and Hugh J. Guffer, Jr., *Learning About Your Market*, Small Business Administration (1979).

Internal Information

Internal information is extremely useful because it is generally close at hand and costs you little or nothing to obtain. Therefore, before thinking about expensive field experiments or surveys, look at your own records and files. These include: sales records, receipts, complaints, all of the records noted in the record-keeping section of this book, and anything else that shows and tells about your customers, what they are interested in, and what they buy. One source of information is your customers' addresses. This alone will tell a great deal about them—not only where they live, but also their income and life-styles. This information can be of great assistance to you in determining what your customers will be interested in buying. The most successful mail order firms make millions not by selling a single product once to a customer, but by selling numerous products to their customer list again and again.

Secondary Research

Secondary research concerns information already available outside your company. The key here is its availability. It has already been put together by someone else. This information may have been collected by other firms or government agencies, and may be found in books, newspapers, and a host of other sources. But the important fact is that this information is already available. Someone else has done the work; that's why it's called "secondary" research. It costs you little or nothing to obtain. You don't have to design the survey method. You don't have to do the interviewing. And you don't have to spend time and resources collecting this information yourself. Where can you find this information? At the end of this chapter you will find over 100 sources of statistics, studies accomplished, and secondary research that you can analyze to obtain more facts regarding your customers. You can also purchase completed marketing research reports. Three firms that sell such reports are:

1. Cambridge Information Group
Findex
7200 Wisconsin Ave.
Bethesda, MD 20814
2. Mediamark Research, Inc.
708 Third Ave.
New York, NY 10017
3. Off-the-Shelf Publications, Inc.
2171 Jericho Turnpike
Commack, NY 11725

Primary Research

Perhaps you have already looked at the cheaper and easier research methods—your internal records and secondary sources of information—and found that the specific information that you need simply isn't available. In this case, you must do the research yourself or hire someone else to do it for you. The means of getting this information, specifically tailored to your needs, is called primary research.

EXPLORATORY VERSUS SPECIFIC RESEARCH

There are two basic types of research that you should consider once the decision is made that primary research is necessary. One type is called *exploratory research*, and the other, *specific research*. Exploratory research is aimed at helping you to define the problem. It is typically done through in-depth interviews with a relatively small number of people. Questions are asked that invite detailed, lengthy answers from the respondents. These interviews tend to be nonstructured, freewheeling, and open-ended. One example of exploratory research was accomplished by a soup company some time ago. The basic promotion had been that a customer would receive a free pair of nylons for trying the soup. But the promotion—and thus the soup—had failed. In-depth interviews were conducted with a limited number of customers to discover the answer. From this limited research, the result was found that an image of “feet in soup” had resulted. This error in consumer behavior psychology had caused the promotion for the new product to fail.

Specific research is used when the basic problem has already been defined. It focuses on ways of solving the problem. Specific research typically uses much larger samples than exploratory research, and because of this it tends to be much more expensive. The interviews used with specific research are very structured, complete, and of formal design. Following the example of the soup, specific research would be conducted to find out what promotion to offer, that is, what premium, if any, to give to consumers for trying the new product. The respondent might be given a number of choices from which to select his or her preference.

THE MARKETING RESEARCH PROCESS

The marketing research process can be divided into certain steps:

1. Define the problem
2. Decide whether marketing research is needed
3. Identify objectives
4. State specific data to be obtained

5. Design the research instrument to be used
6. Decide on the sample
7. Collect the data
8. Tabulate and analyze
9. Draw conclusions and decide on courses of action

Define the Problem

You cannot proceed until you have a good definition of what your problem is, whether it be a new product introduction, identification of customers for a certain market, or whatever. This first step of the research process seems obvious and therefore many people tend to overlook it. Yet, experts tell us that it is the most important step. When defining the problem, look beyond symptoms: declining sales, declining profits, and so on. You must ask yourself: Why are sales declining? Why are profits down? List every possible reason. Could your customers be changing? Is there new competition? List all possibilities, but focus on those that can be measured. These are the ones that you can base your marketing research on. Problems that cannot be measured are not candidates for marketing research.

Decide Whether Marketing Research Is Needed

As noted previously, if you cannot measure the influence on the problem, you cannot do marketing research. But even if measurement is possible, before you decide to invest your time and treasure in marketing research, you should consider several factors: (1) Is internal or secondary research available? (2) What in general will it cost in money, resources, and time to do the research?

If the research has already been done and is available free, it makes little sense to do it over. If the research can be obtained, but at too high a cost, higher than the increase in sales or profits that may result, the research is clearly not worthwhile. The same thing is true if it will take so long to get the information that you will not be able to use it. Therefore, always recognize that doing marketing research may not be the answer to the problem that you have defined. However, if thinking through the situation shows that you can conduct research that will be of assistance in solving the problem, then proceed to the next step.

Identify Objectives

You should understand everything you can about the problem and the information you are seeking before proceeding. This will enable you to specify clearly the objective or objectives of the study that you are undertaking. You may have a single objective or you may have several. Either way, you must state it or them in the clearest possible terms. For example: "The objective of this study is to determine who is buying memberships in health clubs within 10 miles of my location."

State Specific Data to Be Obtained

Now, you must decide on exactly what information you want to obtain. If you want to know who is purchasing memberships in health clubs in a 10-mile area, you may wish to know them by (1) income, (2) education, (3) age, (4) sex, (5) occupation, (6) employment, (7) precise geographical location, (8) what type of media they read, see, or listen to, and so forth. All of this information should be specified in this section.

Design the Research Instrument to Be Used

Now, you must decide how you will do the research. First, you must decide whether you wish to do exploratory or specific research. Then, you must decide where and how the information is to be obtained. Your questionnaire must motivate the respondents to supply the information you want, sometimes concealing the reasons for obtaining it so as not to introduce extraneous factors into the results. It can have several different forms: it may be a set of questions designed to be asked over the telephone or in a personal interview, or a survey going through the mail. Each form has advantages and disadvantages, and which one to use depends on your situation. For example, a mail survey must be as short as possible, or people won't respond. The same is true for the telephone interview. But a personal face-to-face interview can be as long as an hour or more. You must also consider the complexity of the questions you will ask. For most complex questions, a personal interview is necessary. If you are handling a touchy subject, the telephone interview may be extremely difficult because the respondent may hang up. Also, the personal interview may be risky because the individual making the interview may bias the reply. In a mail interview, because you are not there to obtain feedback, you must strongly motivate the individual to answer. A self-addressed, stamped envelope is almost a necessity, to enable the respondent to send the survey back to you easily. But you don't use a postage stamp. You would waste your money if the person did not answer. Instead, use a special reply permit indicia, which you can obtain at your local post office. Even with this the respondents by mail will be far fewer than with other survey means. You must allow for this in the number of samples that you attempt to obtain. One survey that used all three methods had comparative responses as follows: mail, 15%; telephone survey, 70%; and personal interview, 80%. There are also tradeoffs regarding cost. Mail is probably the cheapest, followed by telephone. Personal interview is three times as costly as phone because an individual must go from place to place and must be compensated for his time. Use Figure 1.1 for a means of comparing the three methods in detail.

Once you've decided which type of questionnaire to construct, you must then begin to design it. Usually the questionnaire should be divided into several sections. The first section contains the basic classification data, including the name of the