MaRS | ENTREPRENEUR WORKBOOKS

Market Strategy Development Series

Building Block 3

Strategic Marketing Approach

THE MARKET STRATEGY WORKBOOK
Introduction: What to expect?

In his book *Outliers*, Canadian author Malcolm Gladwell looks at the relationship between statistical probabilities and the chance of success in your chosen field of work or sports. His essential claim is that you need around 10,000 hours of practice to become really good in a particular field.

This workbook will not take 10,000 hours to complete, so you should not expect that you will become an expert in market strategy by going through the activities outlined within. Rather, the purpose of the workbook is to help you understand and focus on the key issues in the field of market strategy, and to introduce you to frameworks within which to think and discuss essential areas of your business. The process offered will provide sufficient grounding in the topic so that you will know what questions to ask advisors and consultants, and, in the case of consultants, how to evaluate their work.

Additionally, this workbook provides a launch point for a number of vital business decisions you will have to make to develop your start-up. As a best practice, it is critical to return to these workbooks and revisit facts and assumptions on a continuous basis. This will ensure not only that you build on your learning experience but that you adjust your assumptions to maintain the right course for your business.

Building Block 3: Strategic Marketing Approach

This workbook is part one of three covering market strategy. It is designed specifically for entrepreneurs in the high-tech space.

The market strategy process consists of three major parts, or "Building Blocks", each adding to the foundation of the previous one:

Building Block 1:	The Analytical Foundation
Building Block 2:	Critical Value Factors
Building Block 3:	**Strategic Marketing Approach**

Each of these Building Blocks addresses an essential part of your market strategy. Once you have finished all three workbooks, you will have a complete market strategy document for your company.

With this document in hand, you will be ready to begin work on tactical programs designed to implement your strategy, including sales, marketing communications, and product management.

Business Planning: The market strategy workbook will also help you create most of the analytical information required to create a business plan, a pitch deck and other documents that are required if you are seeking external financing.

How to use these workbooks

1. Make it a team exercise—but make it quick!
Creating a market strategy can be very time-consuming, especially if you do a lot of market research upfront. But it does not have to be. We believe that much of the information you need is already known to your management team and advisors, so we recommend that you make the creation of your market strategy a team effort. However, time is of the essence for high-tech start-ups. Work through the Building Blocks thoroughly, but as efficiently as possible.

2. Record and test your assumptions
As you go through the exercises in these workbooks, record all your key assumptions in the accompanying planning document so they can be tested later. This will be helpful when you do your market research, which will validate (or invalidate) the key assumptions you made when creating your market strategy.

3. Use the icons for help
The workbooks are structured under the assumption that this is the first time you, the reader, has undertaken a market strategy planning exercise. To help provide context for some of the ideas in these workbooks, we have clarified the ideas by defining key terms and offering real-world examples. In addition, we have provided links to online articles. For this reason, you may find it easiest to use these workbooks on a computer with an Internet connection.

Look for these icons:


denotes a key marketing term that will recur in these workbooks


indicates an example drawn from a real-world business in order to illustrate an important idea


denotes a link to a more in-depth online article


appears wherever you are asked to record something while completing the exercises


indicates key information for your business plan, pitch deck or other document you might be preparing for potential external investors

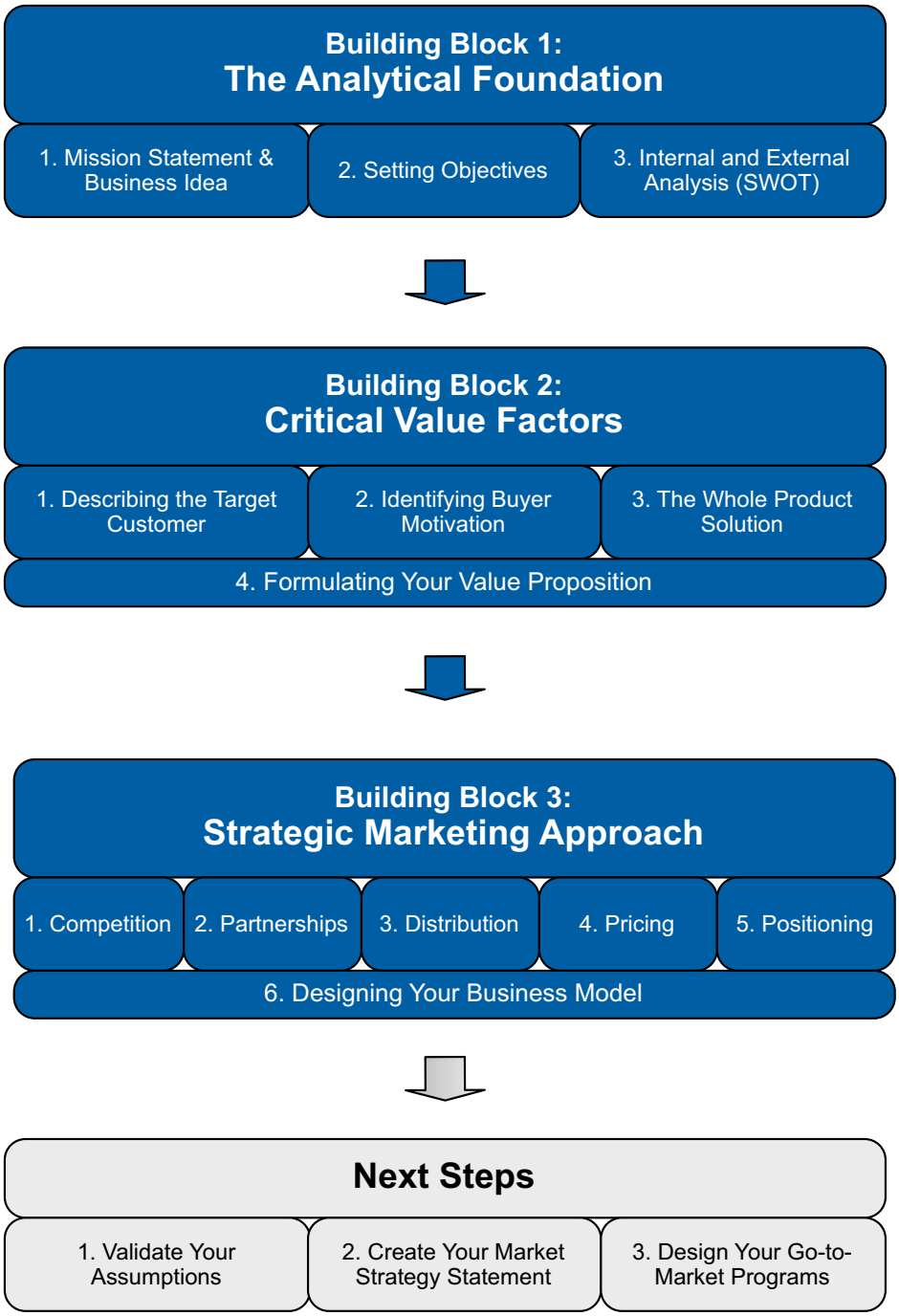
Assumptions

These workbooks are designed to assist entrepreneurs and leadership teams in early-stage high-tech companies with *discontinuous innovations*—that is, offerings that are fundamentally new to the market.

The workbooks are based on tried-and-tested strategy concepts and marketing theories that are relevant for start-ups within a wide range of industries including medical devices, software, clean-tech, advanced materials, and high-tech electronic and IT products. They are less relevant for start-ups in the bio pharmaceutical industry, because of the regulatory environment surrounding that industry.

Many start-ups in Ontario fall into a broad group that is variously called Web 2.0, interactive media, or digital media. These companies are building a business based on the Internet as an access/distribution platform for applications developed using standard web technologies. In most cases, their offerings are not truly discontinuous innovations: they are evolutionary rather than revolutionary. These companies will still find these workbooks helpful, but they should assume that their starting point is the Chasm.

Building Blocks of Market Strategy Development



BUILDING BLOCK 3: Strategic Marketing Approach

This building block contains the final pieces of your market strategy. The exercises will help you describe the five variables that are critical for executing your market strategy:

1. Competition
2. Partnerships
3. Distribution
4. Pricing
5. Positioning

These five exercises,[1] combined with the value proposition you formulated in Building Block 2, should allow you to describe your *business model* as the final step of this building block.

1. Competition

This step will help you understand how you can beat the competition by making them irrelevant. The idea is to discover market opportunities that remain untapped by your competitors.

There are two main types of competition:

- **Reference (direct) competition**: products or companies that compete against yours within a specific category. You compete against reference competitors by differentiating your product from theirs.

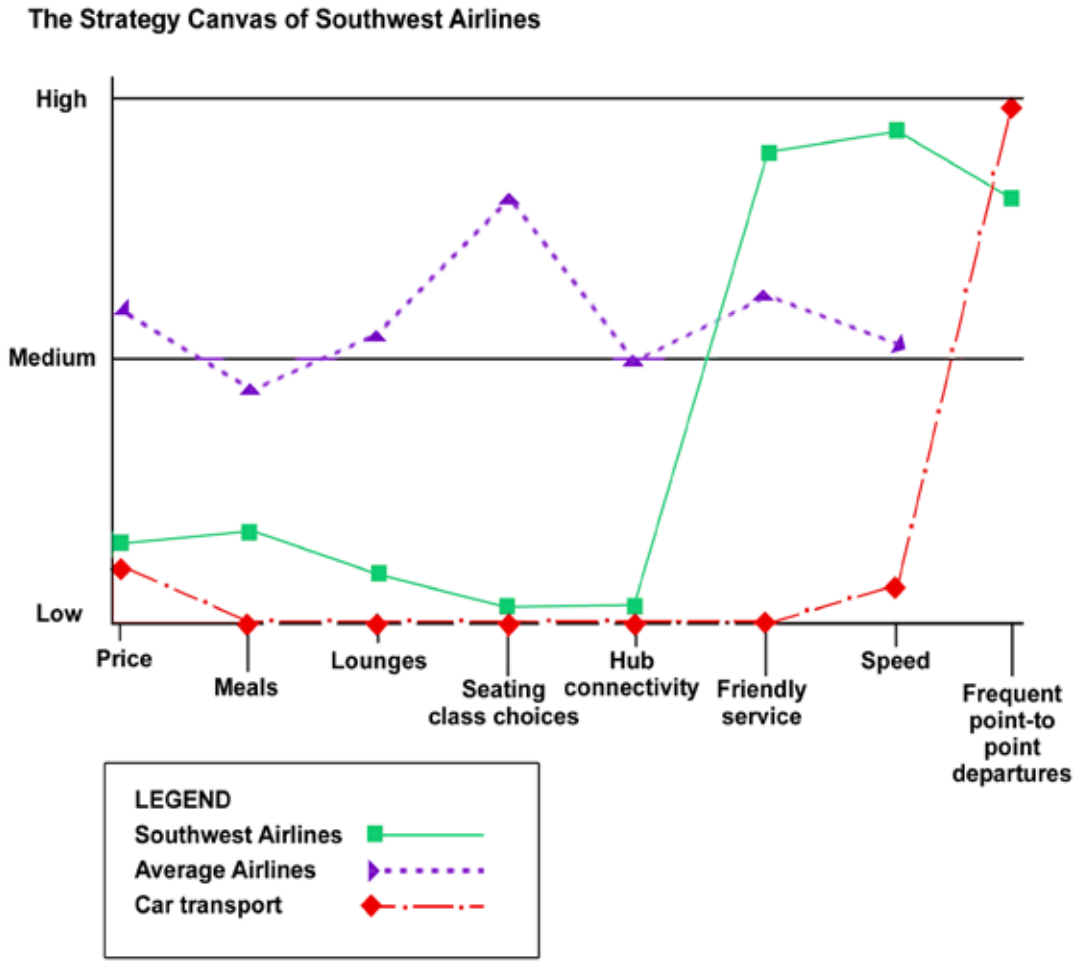
- **Economic (indirect) competition**: products or companies that compete for the same budget. You compete against economic competition by fighting for product supremacy.

Start-ups are also competing against the status quo (i.e., doing nothing), which is often the greatest competition they will face.

[1] The five main parts in Building Block 3— Competition, Partnerships, Distribution, Pricing, Positioning— have been derived from Paul Wiefel's "Market Strategy Development Checklist," as described in his book, *The Chasm Companion* (Harper Business, 2002). They are complemented by ideas, tools and frameworks from others to fit our specific purpose.

Read more about competition.

The strategy canvas—described by W. Chan Kim and Renée Mauborgne in *Blue Ocean Strategy*—is a visual tool that captures the state of competition in a market. It allows you to understand where your competitors invest their resources, how the industry designs its marketing mix and ultimately what customers receive from the competitive alternatives. Here is an illustration using Southwest Airlines:



Source: Kim, W. C. & Mauborgne, R. (2005). *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*. Boston: Harvard Business School Press.

This strategy canvas includes both traditional airlines, and car transport, the two main alternatives to flying with Southwest. The horizontal axis lists the competitive factors that generate value in the transportation market. The *value curve* is the graphic depiction of how each alternative scores on these competitive factors. Southwest Airlines has created a value curve that is clearly distinct and differentiated

from the alternatives in terms of price, friendly service, speed and point-to-point routes. This profile is well focused, making it easy to communicate. Its other advantage is that these benefits simultaneously appeal to many traditional airline travellers and to drivers, and therefore represents an opportunity for trumping the competition.

You can use the strategy canvas framework to better understand your competition and how you can beat them.

a. Describe your main sources of competition

Address the questions below, and write your response in the table provided in the corresponding section of the Strategic Marketing Approach planning document.

- How do your competitors compete against you? For example, are they a reference or economic competitor?
- In the eyes of your customers, what are the strong and weak sides of the competition?

b. Differentiate yourself

Use the information in your SWOT Analysis (Building Block 1) and in the Buyer Utility Map (Building Block 2) to answer the questions below. Write your responses in the corresponding section of the Strategic Marketing Approach planning document.

- What are your target customers' compelling reasons to buy? What attributes do they value? Consider including elements of your business model here, if it contains attributes that you believe will allow you to reach more new customers.
- What differences between you and your competitors generate value for your target customer?
- Do you see opportunities to offer value to your target customers that the competition has overlooked?

Read more about competitive strategies.

c. Plot your value curve

In the corresponding section of the Strategic Marketing Approach planning document, plot the value curve of your offering alongside those of your main competitors.

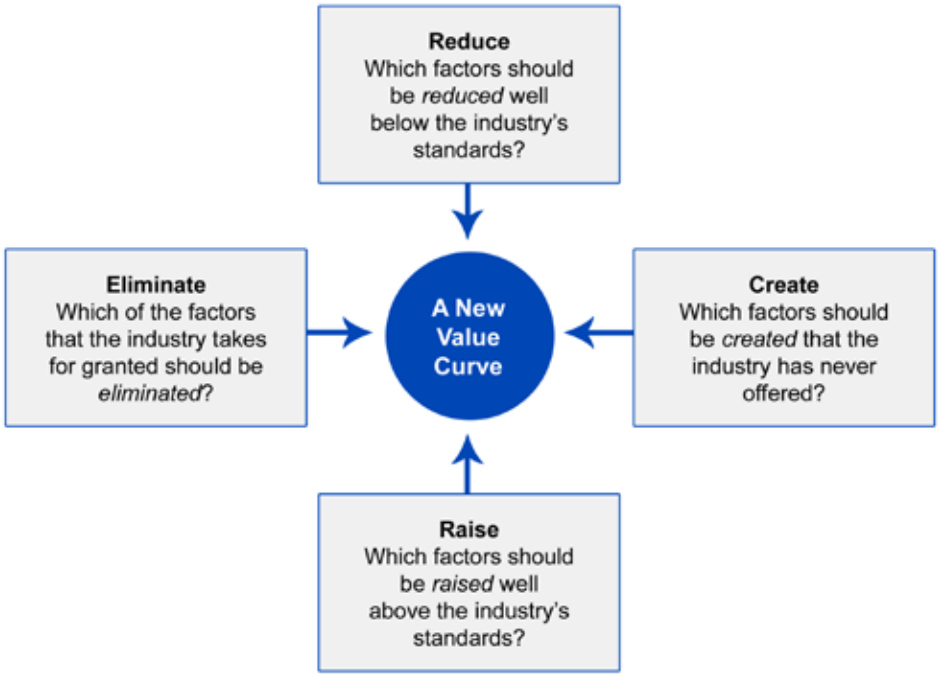
d. The ERRC framework

If your competitive profile does not offer enough differentiation—which is increasingly important the more mature your market becomes—use the ERRC framework to systematically review your options for improving your competitive profile. The ERRC framework is another concept taken from Kim and Mauborgne's *Blue Ocean Strategy.* ERRC stands for:

- E = Erase
- R = Reduce
- R = Raise
- C =Create

The following figure illustrates the ERRC concept:

The Four Actions Framework



The ERRC framework should be applied to the factors considered in the earlier strategy canvas, keeping in mind that the "Create" portion gives you license to create new competitive factors that you think potential customers will embrace. Note that the emphasis of the strategy canvas and the ERRC framework is to build a competitive profile that will appeal to customers who are currently "non-users." (In other words, those not yet spending in your category.)

As mentioned, the ERRC exercise will help you achieve a distinct competitive profile. To start, consider one of your current competitive factors and subject it to the key questions in the ERRC grid. The critical determination is whether the factor adds a cost that your customers will not value enough to pay, or whether it adds a value that sets you apart from the competition. By increasing investments in factors that are valued and reducing investments in factors that are not, you save money and increase customer appeal. Systematically evaluate every competitive factor with the ERRC questions. Lastly, consider adding competitive factors not currently in use by any players. Only add new factors if they will attract more revenue than they cost.

Using the instructions above, complete the ERRC grid in the corresponding section of the Strategic Marketing Approach planning document.

Note: Bear in mind that any changes you make to your competitive profile will require you to return to your whole product concept (Building Block 2), and potentially revise your value proposition (Building Block 2).

Using the strategy canvas in the corresponding section of the Strategic Marketing Approach planning document, plot the new value curve of your offering based on any changes from the ERRC exercise.

External investors will always want to know how you differ from the competition. Include the strategy canvas in both business plans and pitch decks as an effective tool to illustrate this information. Remember, investors need to see that your business can sustain its differentiation, so plot your curve and choose your attributes with this in mind.

2. Partnerships

Partnerships and alliances comprise an important part of the market strategy for a start-up in the Early Market. They can ensure that your product is appealing to your target market. In other words, use partnerships to complement your offering as part of your whole product strategy.

Two key motives should drive the creation of your partnerships:

- achieving market leadership by creating whole product solutions as quickly as possible
- achieving and sustaining market leadership by differentiating your product or service

Partnerships should be based almost exclusively on these criteria. The goal is to significantly increase your time-to-market advantage.

Read more about partners and allies.

Example of successful partnerships

The high-tech world offers several examples of successful strategic partnerships.

In the late 1990s, the German software company SAP joined forces with Hewlett-Packard and Andersen Consulting and supplanted IBM as the premier enterprise vendor, a feat they achieved by bringing client-server Enterprise Resource Planning (ERP) systems to market.

Other examples include the alliance between Intel and Microsoft, the twin forces dominating the PC industry, and the early partnership between Netscape and Yahoo!, where the browser directed traffic to the search engine, which in turn ramped up demand for the browser.

These partnerships have been remarkably powerful, but are beyond the scope of what most product managers can do. It is more appropriate for product managers of technology start-ups to focus on "tactical alliances" that have a single purpose: to co-develop a whole product and share the task of marketing it.

Source: Moore, G. A. (2006). *Crossing the Chasm: Marketing and Selling Disruptive Products to Mainstream Customers.* New York: Collins Business Essentials.

a. Determine your partnering approach

Your partnering approach is driven by the maturity of your product category and by the product roadmap you developed in Building Block 2.

I. The Early Market
In the early stages of the technology adoption lifecycle (TALC), consider the following objectives when choosing partners:

- Look for partners that can reduce the risk that your technology will be implemented incorrectly in the customer's organization. Not only would such an event create a negative experience with your product, it could cause a major disruption to the customer's operations and significantly harm their business.

- Look for partners with credibility. As a start-up, you have little or no brand recognition, and low credibility. Partners with established identities will validate you in the eyes of your customers.

Good partner candidates typically have expertise complementary to yours, or large customer bases in your target markets. In the technology industry, the partnering

process usually leads you to companies with the following skill set:

- advanced technical expertise
- systems integration capabilities
- business process and change management consulting skills
- project management expertise

Also consider choosing a credible legal advisor, accountant and financial advisor as part of the partnering process. As the saying goes, "Tell me who your friends are and I'll tell you who you are." The reputation of those around you reflects on you, and for a young company, that can help open important doors.

II. The Chasm and Niche Markets

The goal at this stage is to create whole product solutions for targeted niche segments. Look for partners who can help you develop these markets, and who can participate in your ongoing market development efforts over time. Use the following questions to help identify and qualify potential partners:

- Who will I need to complete the product so that it is a working, repeatable solution that provides customers with a positive, measurable return on investment?

- Who will I need to deliver a value-added solution into the target market segment? What specific knowledge of the target segment do I require, and who might possess this knowledge?

- Who will I need to complement the whole product solution and create greater value for my chosen customer segments?

- How does the partner benefit from participating in the value chain and target market? Can the partner create their own value chain and/or offer a complementary chain?

With the rest of your leadership team, brainstorm ideas about possible partners, recalling the relevant objectives as your whole product strategy moves through the early stages of the TALC. Document this list in the corresponding section of the Strategic Marketing Approach planning document.

b. Choose your partners and allies

In the corresponding section of the Strategic Marketing Approach planning document, list the types of partners and specific candidates you'll need now, and those you'll need later as you move through the TALC. Identify your expectations for each partnership, and the time frame needed for its implementation.

3. Distribution

Distribution refers to the process of making a product or service available to customers. Sometimes referred to as "place," it is one of the four main elements of the *marketing mix*.

*The **marketing mix** is a set of tactical marketing tools that a company uses to produce a desired response from its target market. It consists of the four main variables that a company can control, referred to as the four P's: product, place (or distribution), pricing and promotion.*

A smart distribution strategy is necessary for success, and it can be a source of competitive advantage. It is important to find a distribution channel that makes it convenient for the buyer to purchase and consume your product. Amazon and Dell are examples of companies that have been successful largely because of the way their products are distributed.

Read more about distribution.

Two key criteria can help you select the appropriate distribution model:

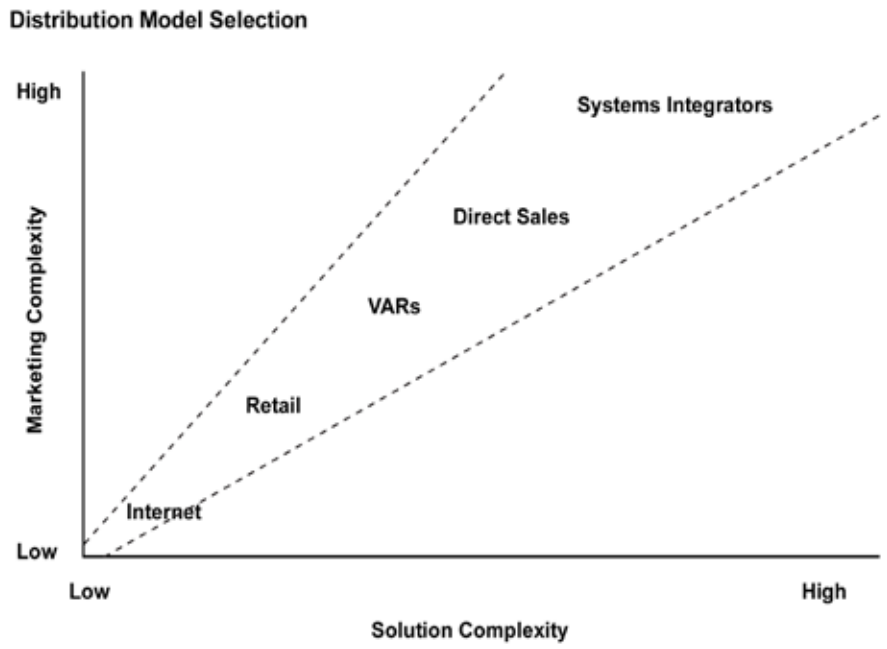
- **Solution complexity:** How complex is the product to install, deploy and use?
- **Marketing complexity:** How complex is the product to source, buy and support?

When selecting a distribution channel, the solution complexity and marketing complexity should be proportional. If the product is easy to use, then it should be easy to buy—selling books and DVDs online are examples. If the product is complex to install, then it will be more difficult to support, and will therefore require a more complex distribution channel. For instance, if you are selling software solutions for supply-chain management, direct sales would be more appropriate.

Problems occur when the marketing and the solution are not balanced. If your product has a high marketing complexity and a low solution complexity, it may become too expensive for customers, and the margins will be too poor for vendors.

In the opposite scenario (high solution complexity and low marketing complexity), you risk under-powering the marketing efforts.

With these ideas in mind, plot your ideal distribution model on a graph like the one below. When you select a distribution channel, stay within the funnel formed by the two lines.



Source: Wiefels, P. (2002). *The Chasm Companion.* New York: Collins Business.

There are five key factors to consider when evaluating a distribution channel:

1. **Market size and variation in customer profiles:** If the market is large, you have to consider the logistics of your potential channel. When targeting a variety of customer segments (especially in more mature markets), assess if your channel can reach and service all of them. You might need more than one channel to reach all target segments.

2. **Cost of the distribution channel:** Each distribution channel has its own way of making money. Review the cost of the channel—in terms of absolute value cost, cost per sale, and fixed vs. variable channel costs—and compare the profitability of different options.

3. **Type of product:** A standard product (well-defined characteristics, sold in large quantities, ideal for external distributors) is less complex than one that requires customization. When you have a non-standardized product, which requires personal contact with users, you must evaluate each channel's ability

to handle the customization.

4. **Degree of risk and control:** Your channel partner might be an important source of customer feedback that might otherwise be difficult to come by. When selecting distribution partners, consider how much information will be shared, as well as the risk of the channel partner entering your market and becoming a competitor at some point in the future.

5. **Flexibility:** Consider the length of your contract with a distribution channel, knowing that certain types of channels might only be suited for a specific stage of the technology adoption lifecycle. Also, bear in mind the time you will need to develop a relationship with the distribution channel: with complex products, a good deal of education will be required.

Finally, take into account your own preferences when considering the five factors: What is the ideal distribution channel for you? Is this distribution channel available?

In the corresponding section of the Strategic Marketing Approach planning document, complete the table for each distribution option under review.

While considering the factors in the table, answer the following two questions, and write your response in the corresponding section of the Strategic Marketing Approach planning document. This will help you identify an ideal distribution channel.

1. *What is your ideal distribution channel?*
2. *Is this channel available?*

4. Pricing

Pricing is another of the four main elements of the marketing mix, and the only one that is revenue-generating (the other three add to a company's cost). It is strongly linked to your business model: any significant changes in pricing will dramatically affect the viability of your business model.

Pricing in high-tech markets is often more art than science. A well-chosen price should accomplish three goals:

- achieve profitability for the company
- fit within the realities of the marketplace: customers must be willing and able to pay the price you set
- support a product's positioning and be consistent with the other variables in the marketing mix: product quality, distribution issues, promotion challenges

Customers like to know exactly what they are paying for and what they can expect in return. Keep the pricing model as simple as possible, so that your front-line staff can communicate it easily.

The steps below will help you consider the most important elements in setting the price for your offering.

a. Value and price

Always remember to think about price from your customers' perspective. Your price should reflect the *value* your product offers. These questions will give you an idea of the price level you should focus on:

- How critical to your customer's operation is your product, and what alternatives does your customer have? Does your product impact core processes or is it on the margins of the customer's operation?
- How does your product generate value for your customers? Does it increase sales or customer retention? Does it reduce cost?
- How can you measure this value? Which of your customer's performance metrics are affected by your product? Does this value apply to all potential customers?
- Is this value generated on a one-time or continuous basis? Does ongoing value generation depend on regular service or maintenance from you?

Using the corresponding section of the Strategic Marketing Approach planning document, provide answers to the preceding questions.

b. External factors

Evaluating these external factors will help you determine the structure of your pricing model:

- **Customer constraints:** How does your customer make money, and what does their cost structure look like? How does your product fit with your customer's income and cost structure?
- **Competition:** How do your competitors charge for their products? Is there an industry-standard pricing model that you will be expected to adhere to?
- **Partners and allies:** How do your value chain partners make money? How does your product fit with your partners' business model? Can they make money in the same way with your product as with other products?

Using the corresponding section of the Strategic Marketing Approach planning document, provide answers to the questions above.

c. Determining a pricing model

There are several possible pricing models a business must choose from. In most technology-oriented businesses, a *value-based* pricing model makes most sense. This model sets a price based on how the customer values the product: in other words, it requires a company to establish and quantify the return generated by the product's use from the customer's point of view.

Read more about pricing theory and pricing models.

Use the results of sections a and b to construct a model that matches your business objectives, the market in which you operate, and the value you offer your clients. Write your model in the corresponding section of the Strategic Marketing Approach planning document. Consider:

- ***Are you pricing a one-off transaction or an ongoing relationship?*** *Should you examine some sort of subscription model, or would a transactional or pay-as-you-go model be more appropriate?*

- ***What is included in the initial sale, and what are extras?*** *Are services such as installation, customization, maintenance, training and ongoing support included in the principal amount or available as add-ons?*

5. Positioning

This exercise will help you create a positioning statement—the thirty-second answer to the question: "What do you do?" Keep in mind that the question has to be answered from the customer's point of view: it must clearly state what the product does for the person who buys it.

Positioning is about the attributes or conditions associated with your product. It is not what your company physically does to a product: it is what your company does to a customer's mind.

A positioning statement enables you to establish and potentially control how your product is viewed in terms of benefit and differentiation. It is the single greatest influence on the decision to buy. Therefore, having the most favourable market positioning in the minds of your target customers can be very lucrative.

A positioning statement explains who you are, what you offer, whom your product is for and why it is important and compelling. It should:

- effectively identify the target customer or segment and make your competitive situation clear and understandable

- present your claim (and related benefit) in a concise, singular and compelling manner, supported by credible evidence

- be accompanied by a differentiation statement that is concise, singular, compelling and supportable, reflecting the target customer's attributes and environment

- pass the "elevator test": that is, it can be explained in the time it takes to ride up or down an elevator

Read more about positioning.

Examples: **Positioning statements**

Your product's positioning is often difficult to express concisely. As Geoffrey Moore points out, however, passing the "elevator test" is crucial if you want to attract investors, create effective marketing communications and recruit partners. He offers two examples from the tech world:

Silicon Graphics
- *For* film engineers working in post-production
- *Who* are frustrated by the limitations of traditional film editors
- *Our product is a* digital film editing workstation
- *That provides* users with the ability to modify film images to their choosing
- *Unlike* workstations from Sun, HP or IBM
- *We have assembled* all the interfaces required for post-production film editing

Quicken (by Intuit)
- *For* the bill-paying member of the family who also uses a home PC
- *Who* is weary of writing the same cheques month after month
- *Our product is a* PC home finance program
- *That provides* automatic tracking of all cheques
- *Unlike* Managing Your Money, which is a financial analysis package
- *We have assembled* a program optimized for household bill paying

Source: Moore, G. A. (2006). Crossing the Chasm: Marketing and Selling Disruptive Products to Mainstream Customers. New York: Collins Business Essentials.

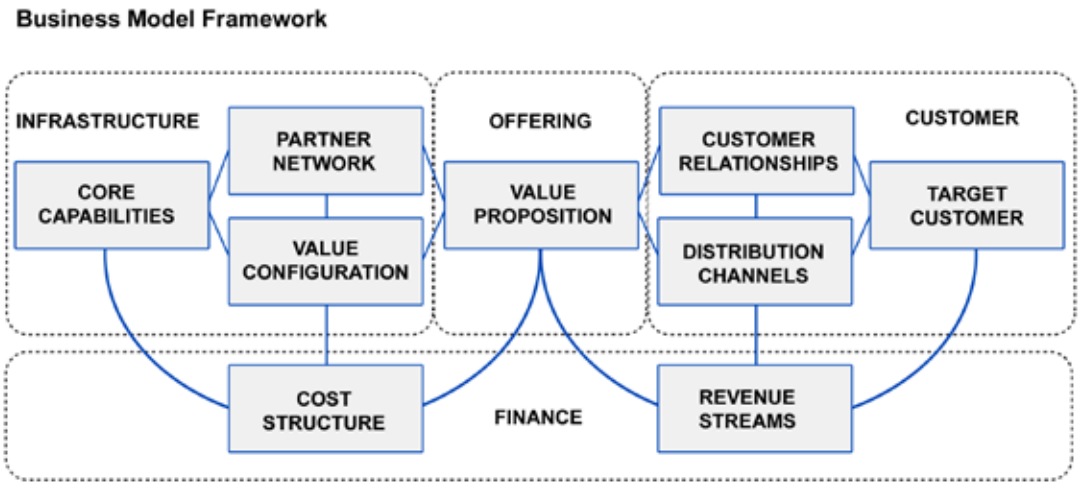
To build your own positioning statement, apply the preceding framework recommended by Geoffrey Moore and complete the sentences below in the corresponding section of the Strategic Marketing Approach planning document.

- *For…* (your target customer or market)
- *Who…* (the compelling reason to buy)
- *Our product is a…* (your placement within a new or existing category)
- *That provides…* (the key benefit that directly addresses your customer's compelling reason to buy)
- *Unlike…* (the primary alternatives or competitors)
- *We have assembled…* (key difference or point of differentiation in relation to your specific target customer)

6. Design Your Business Model

A *business model* describes the value an organization offers to its customers. It illustrates the capabilities and resources required to create, market and deliver this value and to generate profitable, sustainable revenue streams.

Your task now is to use the information you have generated in the previous exercises to design your own business model.



Source: Alex Osterwalder / Arvetica

The figure above captures the logic of business strategies and processes. The following step-by-step guide, based on the work of business model advisor Alex Osterwalder, will help you apply these principles to your own start-up. The process will show you where your model is strong and which parts need more attention.

Use the table provided in the corresponding section of the Strategic Marketing Approach planning document to describe your business model. Refer to the following sections a to d for guidance.

a. Offering

Start with your *value proposition*. You will recall that this is the statement of the unique benefits delivered by your offering to the target customer. You have already formulated this in Building Block 2.

b. Customer

- The value proposition leads naturally into a discussion about your product's target **customer segments**. Specifically, it is important to understand the target customer's motivation to buy (see Building Block 2).

- What kind of **customer relationship** do you want? Does your offering lend itself to one-off transactions, or is it an ongoing relationship that should be organized in some sort of subscription or contract? Is repeat buying important for your success?

- The type of relationship you would like to have with your target customer has a strong influence on your choice of **distribution channel**. These are discussed in detail earlier in this Building Block.

c. Infrastructure

- Your **core capabilities** are the assets you bring to the table. These include skills, patents, and unique expertise that you can leverage in an offering. The core capabilities would be listed among the strengths in a SWOT Analysis (see Building Block 1).

- Creating your offering may involve building a **partner network** including, for example, suppliers with capabilities that complement yours. It is critical to understand how to integrate these into your offering and your processes. Partnerships are discussed earlier in this building block.

- The **value configuration** describes how all the moving parts come together on a daily basis to create the offering and serve your customers. Focus on describing the most important elements, including critical tasks and time allocation, the people and skills required, and the core processes in your organization.

d. Finances

- Describe the **revenue streams** through which you earn money for value-creating and customer-facing activities. Can you price your product in such a way that you optimize the volume?

- The **cost structure** includes the expenses you incur, as determined by the infrastructure side. Does the cost structure offer you a reasonable profit?

NEXT STEPS

1. Validate Your Assumptions

At the beginning of this workbook, we encouraged you to list any assumptions you made while completing the market strategy process. Before writing your final market strategy statement and designing your go-to-market programs, you need to validate these assumptions. The process of validation involves studying data and market research—sometimes obtained from third-party sources and other times conducted by you.

Read more about market research and *market research techniques*.

2. Create Your Market Strategy Statement

Having completed all the exercises in these workbooks and validated your assumptions, you are now ready to create your company's comprehensive market strategy statement.

Using the information you have collected in the three building blocks, create a strategy statement that describes all of these elements:

- your target customer
- the pain your customer is feeling and their compelling reason to buy
- the whole product solution that fulfills your target customer's reason to buy
- key partners and allies who might be part of a whole product solution
- the optimal, value-adding distribution scheme
- the price that will deliver a measurable return on investment to the customer as well as profitability for your company
- the competition (who, what and where)
- the optimal positioning for the product
- the next target segment that can/should be addressed

3. Design Your Go-to-Market Programs

Armed with your market strategy statement, conduct these next steps:

- **Create a product management plan**. This article on product management can get you started.
- **Design a marketing communication program**. A set of articles, starting with Marketing Communication Overview, is available online to help you.
- **Develop a sales and channel engagement plan**. This will help you engage customers and start sales processes.

Go-to-market programs put the work you have done to the test: here you will start to learn the effect of the decisions you made while completing your market strategy.