

Innovation Toolbox

Connect with the Market

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1.0 INTRODUCTION

Connecting with your market(s) should be the ultimate goal of your journey to achieve commercial success from your new idea or innovation. Without markets, their various segments and their assortment of customers your idea or innovation has no real value.

“A business exists to create a customer. Without customers, there is no business”

Peter F. Drucker, 1909 – 2005.

The first steps of your earlier evaluation of the commercial merit of the innovation should have included its market potential, as well as identifying the potential customers that will either buy it or otherwise benefit from its creation. Knowing who your customers, or final end-users, are *AND* exactly how you are going to reach them is essential to enable you to sell to them.

2.0 UNDERSTANDING CUSTOMERS WHO BUY NEW IDEAS AND INNOVATIONS

The market research you conducted earlier was broad and strategic describing the broader environment in which your new idea and innovation might achieve success. You now need to get more specific and targeted about who and where your customers are. If you don't know the *who* and *where* of your innovation's customers, how can you possibly sell it to them?

When it comes to new ideas and innovations you need to examine three issues to assess the motivations of a customer that buy them:

1. **What factors affect customer's purchase decisions?**
2. **Who is likely to buy? Are there categories of customers inclined to purchase earlier than others?**
3. **What affects the timing of customers purchase decisions?**

2.1 What motivates customer's to buy new ideas and innovations?

A customer's decision to purchase generally follows a five-step sequential process:

2.1.1. Problem recognition – the purchase process begins when the buyer recognises a need or a problem to solve.

2.1.2. Information search – the buyer then actively searches for information about how to fulfil the need or solve the problem. This usually takes the form of identifying alternatives that solve the problem.

2.1.3. Evaluate alternatives – there are six factors that customers consider in their evaluation of alternatives that may include new ideas and innovations. From a customer's perspective the decision to purchase a new technology is high-risk and customers don't want to make bad or wrong decisions, usually because of market or technological uncertainty, switching costs and training needs. You should understand these six factors and be prepared to articulate how your innovation measures against them.

Table 1 – Six Factors Affecting Customer Purchase Decisions¹

1. Relative Advantage	The benefits of adopting the new technology compared to the costs
2. Compatibility	The extent to which adopting and using the innovation is based on existing ways of doing things and standard norms
3. Complexity	How difficult the new product is to use
4. Trialability	The extent to which a new product can be tried on a limited basis
5. Ability to communicate product benefits	The ease and clarity with which the benefits of owning and using the new product can be communicated to prospective customers
6. Observability	How observable the benefits are to the consumer using the new product

Using all or some of these criteria the buyer, whether consciously or not, will form opinions about the desirability of the different alternatives, so you should assess these simple factors carefully to understand how quickly your innovation will accelerate in the marketplace.

Merely assuming your customers will understand the usefulness of the innovation is not sufficient. Your sales and marketing efforts must include the various messages that communicate how your innovation responds to these six factors.

¹ Rogers, E., *Diffusion of Innovation*, Free Press, New York, 1983.

2.1.4. Purchase decision – Once the buyer has made a decision on the best alternative that suits their needs, they will reach agreement with the seller on the terms of the sale and take receipt of the new innovation.

2.1.5. Post-purchase evaluation – Having purchased the innovation, the buyer will assess whether it has realised its potential or expectation. A buyer's response at this stage will likely determine what sort of relationship they will have with you and your innovation into the future.

2.2 What are the categories of customers that buy new ideas and innovations?

“The aim of marketing is to know and understand the customer so well the product or service fits him and sells itself.”

Peter F. Drucker, 1909 – 2005.

Generally speaking, the pinnacle of commercial success will be achieved when your innovation is purchased by the majority of customers in your market. Since selling to the majority should be your ultimate goal, understanding the perspective of the majority of the possible users of the product should form the centrepiece of your efforts to connect with your market.

However, regardless of the innovation or industry or market, historically it has proven very difficult to start selling immediately to this majority. Yet they are a group of customers you must secure because of their overall sales volume and value potential, but it is unlikely that you will be able to service their needs from a standing start. It is generally accepted that when selling new ideas and innovations you will have to work up to this market majority through other, earlier customer groups. Table 2 describes these customer groups as categories of innovation adopters.

Table 2 – Five Categories of Innovation Adopters²

Category	Description	Characteristics
1. Innovators	Technology enthusiasts who appreciate technology for its own sake and are motivated change agents among their peers.	<ul style="list-style-type: none"> • Interest in new ideas leads them out of narrow circles of peers into broader circles of innovators • Tolerate initial glitches and problems that accompany innovation coming to market • Willing to develop makeshift solutions
2. Early Adopters	Visionaries looking to adapt and use new technology to achieve revolutionary change to gain competitive advantages	<ul style="list-style-type: none"> • Attracted by high-risk, high-reward projects • The early competitive gains enjoyed by the adoption of the innovation mean they are not price sensitive • Demand personalised solutions, quick response, highly-qualified sales and support
3. Early Majority	Pragmatists looking for evolutionary change to gain productivity improvements	<ul style="list-style-type: none"> • Averse to disruptions in operations, want proven applications, reliable service and results • Seek reference from trusted sources (another pragmatist) to determine whether to purchase • Make the bulk of all technology infrastructure purchases • Don't value technology for its own sake, but rather are looking for productivity enhancements • Want to reduce risk in new innovation adoption, following three principles: <ol style="list-style-type: none"> 1. Move as a crowd – Rapid increase in adoption causes a landslide of demand; 2. Collective selection of the firm leading adopters to the new paradigm – this determines the market leader; and 3. Swift transition – Adopters want rapid transition to the new paradigm, which is why this stage occurs quickly.
4. Late Majority	Conservatives very risk-averse and technology-shy	<ul style="list-style-type: none"> • Very Price sensitive • Demand preassembled, bulletproof, turn-key solutions

² Moore, G., Crossing the Chasm, Marketing and Selling Technology Products to Mainstream Customers, Harper Collins, New York, 1991.

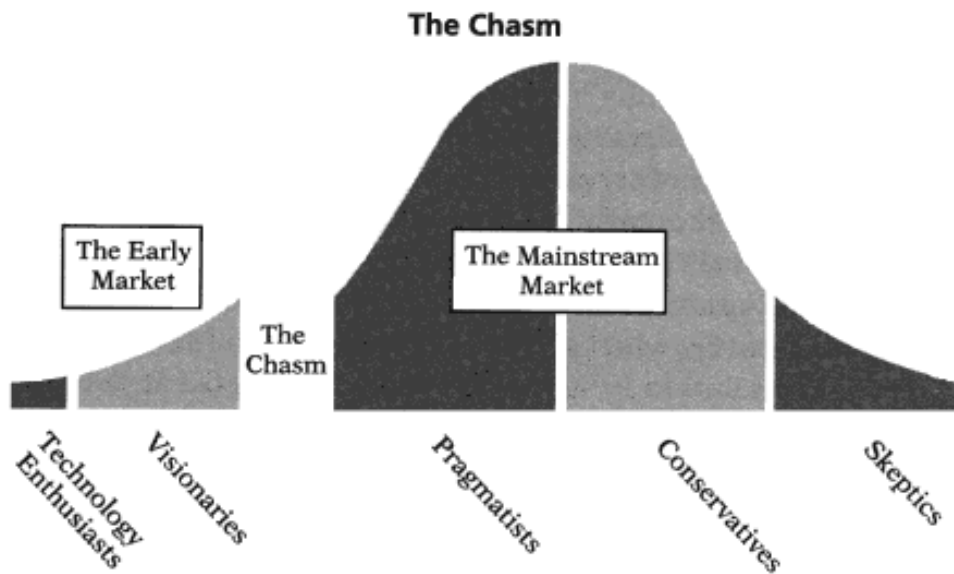
		<ul style="list-style-type: none"> • Motivated to adopt new innovations to maintain parity with their competition or with the majority • Often rely on a single, trusted source to help them interpret the innovation and its application
5. Laggards	Sceptics seeking to maintain the status quo	<ul style="list-style-type: none"> • Reluctant to believe that new innovations can improve productivity • Likely to block new innovation purchases • Will only buy if the alternatives are proven to be worse and the cost-benefit is guaranteed.

By now you will have realised that not all of your potential customers are alike. The characteristics of customers from one group to the next are quite different. The differences in characteristics between the groups represent gaps that link them. Your approach to selling your new idea or innovation to each one, therefore, warrants different strategies and methods too. This is particularly the case for the gap between the early market (innovators and early adopters) and the mainstream market (early and late majority, and the laggards).

This particular gap emerges simply due to the difference in customer volumes either side of the gap. An innovation that follows the customer adoption journey Table 2 describes will have saturated the early market because the innovators and early adopters are by their nature small in number.

Since the characteristics between them and the next groups are fundamentally different, if marketing strategies and methods haven't changed, by the time the innovation is ready to move to the mainstream market there isn't anyone ready to sell to! This gap is so pronounced it is regarded as a deep chasm, leading to the failure of many new ideas and innovations from which many have never recovered. See Figure 1.

Figure 1 – Gap between Early Market and Mainstream Market Innovation Adopters³



So it is extremely critical that you conclude that not all of your potential customers in these groups of innovation adopters are the same. Of course, if you prefer your innovation to be purchased just by the technology enthusiasts and visionaries, then don't worry. However if, like most people with new ideas and innovations, you want your new idea to be adopted by as many buyers as possible it is essential that you don't let the new idea descend into this chasm.

The key to avoiding this potential failure is to recognise that you can respond to the differences between both groups by adjusting your marketing strategies and methods as you approach them. Table 3 describes some of the marketing considerations and risks between groups you might like to consider as you frame marketing strategies to sell to customers in each group of innovation adopters. Be sure to refer to Table 2 to familiarise yourself with the characteristics of each category to put these strategies in context.

³ Moore, G., *ibid.*

Table 3 – Marketing Strategies for Customers in Early and Mainstream Market Innovation Adopters

	Category Summary	Marketing considerations
The Early Market	<p>1. Innovators - Technology enthusiasts who appreciate technology for its own sake and are motivated change agents among their peers.</p> <p>2. Early Adopters - Visionaries looking to adapt and use new technology to achieve revolutionary change to gain competitive advantages</p>	<ul style="list-style-type: none"> • Customer interest is squarely focused on the innovation or the product itself • Customised products, expert sales force and technical support • Engineering or R&D play a crucial role in translating customer demands into product enhancements or modifications • Reward customers' vision and brilliance you embrace in changing the innovation • Flexibility and adaptability • Willingness to service customer feedback promptly and adequately • Accessible to groups of customers to enable ongoing dialogue • Acknowledging the contribution of your customer that improves your innovation's performance and adoption
THE CHASM	<p>Transition Risks</p> <ul style="list-style-type: none"> • Customisation for early market buyers can pull a new venture in multiple directions at steep cost • They are a costly group of customers to support, but sales to these groups represent early cash-flows to a new business so requires a balanced approach and ongoing monitoring of expenses • The high demand for customisation and need for cash flows requires releasing products as early as you can to satisfy demand • Releasing products without adequate testing too early can be detrimental to the reputation of your business • Cash flows will begin to decline as you saturate these small, early customer groups • Relationships with funders and investors need to be strong as you transit from one phase to the next • Reputation risk from significant failures in the early market phase will dent attempts to move to the mainstream • Lack of leadership, vision and commitment as you face adversity during this phase will impact the future of business as it attempts moves to the next phase 	
The Mainstream Market	<p>3. Early Majority - Pragmatists looking for evolutionary change to gain productivity improvements</p> <p>4. Late Majority - Conservatives very risk-</p>	<ul style="list-style-type: none"> • Whole product approach to solve a complete problem • Develop (or partner with others) to provide the whole solution • Customer service is essential • Simplify product offerings and make them user-friendly • Use identifiable early market reference

	<p>averse and technology-shy</p> <p>5. Laggards - Sceptics seeking to maintain the status quo</p>	<p>customers in discrete industry groups or affiliations to communicate with their mainstream brethren in that same sector</p> <ul style="list-style-type: none"> • Welcome competition because it legitimises the need for the innovation, but differentiate yours so the solution exceeds the standard, which reduces perceived risk in customers • If your innovation meets a need and your marketing effective, prepare for an avalanche of demand by planning to adopt your internal and external system/s of supply and distribution to adequately respond
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By now you will have learnt that your new idea or innovation will have different categories of customers. You know more about how they think and know more about how to approach them, but do you know *where* they are?

We know that to optimise the success of your innovation you need to aspire to sell to the mainstream market, and we know that there are steps and strategies along a path required around developing a whole product or service approach to cross the chasm and sell to the largest group of adopters.

However, this is a very time-consuming and expensive exercise and no doubt funds are scarce so you will need to be careful about how you approach your customers in these categories of adopters. You won't want to go after all your potential customers in a scatter-gun approach because that will spread your resources too thin and therefore risk your reputation, which will be a recipe for disaster in the early stages of marketing your innovation.

The best way to effectively connect with your market is to select the group/s of customers that share similar needs, buyer behaviour and characteristics, and will be responsive to your new idea or innovation. You will then target your marketing efforts to these customers in the first instance because they should represent the customer with the best propensity to adopt, as well as link you to the next customer set/s in the same category, which will then enable you to climb into the next category of adoption.

To achieve this you need to *segment* your target market into meaningful and accessible groups of customers.

2.3 Segmenting your market

Your market is a group of individuals or organisations that are potential customers for a product or service and market segmentation is the dividing of a larger market or industry into a number of segments (identifying groups and sub-groups). You may choose to focus marketing activities in one or more these market segments – your target market(s). You segment because:

- ➔ Not all buyers are alike.
- ➔ It's easier to satisfy smaller groups with similar behaviour, values and/or background.
- ➔ Some segments may be easier to access and also offer greater profit potential.

The idea behind market segmentation is to enable you to choose one or a few meaningful segments and concentrate efforts on satisfying them. Common characteristics to broadly segment a market/industry:

Individual consumer markets -

- ➔ Demographic - size, composition and distribution of the human population (age, sex, race, ethnicity, marital status, family size, family life cycle)
- ➔ Socioeconomic – occupation, education, income, social class
- ➔ Psychographic/lifestyle – activities, interests, opinions, values
- ➔ Geographic – continent, political boundaries (country), cultural region, metropolitan area, climate, natural resources
- ➔ Behaviour patterns – heavy users vs. infrequent users, loyalty to brand or store, benefit expected (product needs), importance of price.

Business markets -

- ➔ Geography – political boundaries (cities, states, etc.), domestic/international boundaries
- ➔ Organisational characteristics – industry type, organisational size, technology used.
- ➔ Purchase behaviour and usage patterns – order size (heavy vs. light usage), centralised vs. decentralised purchasing, type of rebuy (e.g. straight rebuy vs. new task)
- ➔ Organisational predisposition or policy – product knowledge, benefits sought, organisation problems, multiple vs. single supplier policy.

2.3.1 Identifying the right segment

Certain information should be known about each market segment before selecting the segment which appears the most meaningful/beneficial to target. The following criteria should be known before making any decision:

- Current demand for the product (market size) – sales, units, number of users, potential share of the market.
- Customer profiles – purchasing behaviours, market gaps (areas where needs are not currently being met).
- Future potential for the product - market growth rate, position in the product lifecycle, trend analysis - conduct a 3-5 year forecast.
- Competitor profiles– number and size of firms and what are they doing to satisfy your potential customers.
- Frequency of new product introductions and emerging technology.
- Threat of potential entrants.
- Bargaining power of suppliers
- Competitive rivalry.
- Distribution networks.
- Entry barriers – capital investment required, extent of economies of scale, access to distribution channels, unions, consumer acceptance/brand recognition, and opportunities for product differentiation.
- Exit barriers – length of time needed in the market to honour labour contracts, length of existing leases, services and parts provided to customers, government regulations and outside obligations to warehousing or financial institutions.
- Economic systems and conditions – allocation of scarce resources, competitive structure (does a monopoly exist in the market?), the business cycle (prosperity, recession, depression, recovery).

2.3.2 Which segment should I approach first?

Based on the analysis of the different market segments, ask yourself:

- Which segments have the highest degree of similarity in their needs and are the most distinct from the other segments? Are these distinguishing characteristics stable over time?
- Which segments have market potential of significant size? Is there a demand for the product which is large enough to be profitable?

- ➔ Which market segments are most accessible through distribution efforts or reachable through promotional efforts? Which segments have minimal barriers to entry?
- ➔ In which segments are you most likely to develop a sustainable competitive advantage? If you ignore any particular segment will it give a competitor the opportunity to grow and encroach on your core markets?
- ➔ Which market segments are growing? Is there a high introduction of new products?
- ➔ In which segments are you most able to satisfy the market requirements/needs given your current organisational objectives and resources?

2.3.3 How can I approach the customers in my target segments?

Now that you have profiled your ideal customer in your preferred market segment, you need to consider the most effective way to tell them about your new idea or innovation. These are some of the methods by which you construct the compelling reason for customers to buy your new innovation or otherwise benefit from its creation:

- ➔ Undifferentiated marketing
 - Mass marketing – selecting all segments.
 - Useful when there is little diversity among market segments.
 - May result in savings in production and marketing costs.
- ➔ Concentrated Marketing
 - Selecting just one segment.
 - Can gain competitive advantage by specialisation.
 - May be too narrow, and high competition in that segment may prove it to be unprofitable.
- ➔ Differentiated Marketing
 - Different buyers, different strategies.
 - Multiple market segmentation.
 - Maximise market share.
 - Extensive resources required.
- ➔ Custom marketing
 - Satisfying each customer's unique set of needs.
 - Going one on one with customers.
 - High marketing costs.

Once a decision has been made on which approach to take, a thorough analysis of your potential collaborators in these target segments must be undertaken so appropriate pricing and distribution strategies can be developed.

2.3.4 How do I reach my target customers?

You essentially have two choices when deciding how to connect your new idea or innovation available to your customers:

- ➔ Distribute the product yourself, or
- ➔ Distribute through intermediaries.

Gaining access to appropriate distribution channels is one of the most critical success factors to your new idea because it is the physical bridging of the gap between you and your ideal customers.

The industry you are in and/or the market you are servicing will largely determine how you distribute the idea or innovation, because they are traditionally already in place, unless your idea is a ground-breaking, radical innovation and new to the world, which may require new thinking and different approaches. Further, with the speed and efficiency of the internet growing daily, traditional distribution channels are narrowing. Nevertheless, for the purposes of illustration, the logistics of moving products around are generally the same, and typical channels of distribution include:

A. Manufacturer----->Consumer

B. Manufacturer----->Retailer----->Consumer

C. Manufacturer----->Wholesaler----->Retailer----->Consumer

D. Manufacturer---->Broker----->Wholesaler----->Retailer----->Consumer

The functions performed by these intermediaries include:

- ➔ Physical distribution – Materials handling, order processing, inventory management, warehousing and storage, transportation, packaging and containerisation, sales force.
- ➔ Communication (a selling function) – Promotional programs, informing buyers how products are to be sold, used, repaired, or guaranteed.
- ➔ Facilitation – Providing extra services, collecting market intelligence, financing, offering credit, taking risks.

You will want to choose the distribution method best suited for your product and where you want to be positioned in the marketplace. Your earlier market research should have revealed the nature of distribution channels for your new idea and innovation so your options may already be available. Nevertheless, deciding on the distribution channel and how many levels and the specific type of intermediaries to be selected at each level, depends on a number of factors such as:

- ➔ Product - value, perishability, technical complexity, complexity of product application, brand image (is it a speciality or convenience product), stage of product life cycle, breadth of product line, supporting services required.
- ➔ Market - potential size, concentration of buyers, barriers to entry (in particular, government regulations), end-user preferences, size and frequency of purchases, environmental stability (political, currency fluctuations etc.), risks of non-payment.
- ➔ Producer/Manufacturer – distribution capabilities, financial strength, management skills, services needed, prevailing distribution practices, existing channels, co-operative promotional program, target market strategy (concentrated or mass marketing), promotional strategy (how important is personal selling).
- ➔ Competition - competitor distribution strategies, agreements with distributors.
- ➔ Channel participants– capability of satisfying target market needs, availability, revenue-cost analysis, control considerations (how important is it to have control over product marketing, brand promotion, product servicing, market information for feedback), legal requirements, market coverage.
- ➔ Costs/Return - Is the gross margin and volume potential in your target market high enough to afford a stronger presence in the market (eg. a representative on the ground)? Could turnover be improved with a stronger presence in the market? Can costs be reduced by local assembly or local contract packing? Could a better price be won for your product if it were marketed more strongly?

3.0 EXPORT

Your market research probably identified international markets with customers that would value your new idea or innovation. In fact part of the commercial appeal of your new opportunity may have rested on the potential to capture customers in global marketplaces. Some innovations are said to be “born” global and the potential to successfully sell to millions of customers abroad has a seductive appeal. However, these instances are rare and generally the exception to the rule.

A traditional test for your new innovation’s potential for success in export markets is measuring the level of success the innovation has enjoyed in your domestic market(s). This implies that your new idea or innovation should be deployed in Australia first, establishing a track-record of successful sales and services to your customers closer to home.

There is no specific rule defining how long your new innovation should be sold in domestic markets before going global, but generally speaking, once you have reached a level of sustainable profit, sufficient capacity to produce and manufacture the innovation, satisfactorily service existing and new Australian customers, the option to export will become more attractive as the commercial risks associated with introducing a new product in domestic markets gradually decline.

Exporting can be a profitable way of growing your business. However, it should not be entered into lightly as the penalties for failure can be high. Thinking about your readiness to export is a way of identifying key success factors and helping you in your planning. This check-list will help you in this process:

- ➔ Commitment and resources: Developing export markets can be costly in terms of time, money and resources and you will need to show management commitment to be successful. You must take a long-term view and be prepared to be persistent and patient while you wait for returns. Consider how many resources and how long it takes to break into a new regional area in Australia. This can be multiplied several times when you are looking at an overseas country.
- ➔ Product/service: Your new idea or innovation needs to be able to meet and better international competition. Price may not always be the deciding factor. Market niches can sometimes be won on superior quality. You may need to change product design

or service offering to suit different industry needs. Product/service literature should preferably be to international standards and be tailored to overseas requirements.

- ➔ **Marketing:** A strong grasp of marketing is vital in export. Do you have solid marketing knowledge and experience gained by successful selling in a number of Australian states? If your new idea or innovation has had limited exposure in Australia it could be more cost-effective to expand at home before tackling new export markets.
- ➔ **Management:** Exporting will require considerable management time and can be a major distraction from the domestic business. Do you have the available management capacity, which will be required to develop and service exports? Is it necessary to strengthen the management team to service overseas exports properly?
- ➔ **Supply capacity:** If you obtain export orders they must be filled correctly and promptly. Do you have the supply capacity to develop export distribution? Can the existing capacity be expanded quickly when required? Your new idea or innovation might be more suited to a licensing arrangement.
- ➔ **Finance:** Breaking into any new export area requires considerable funds (airfares, accommodation, advertising, sales promotion, new brochures, training of overseas sales agents, setting up of joint servicing offices offshore, etc.). Do you have the financial strength to commit, say \$40,000 for the year or more it may take to develop a new overseas market? For more complex countries such as USA or Japan, the amount and time required could be double or more than this rule of thumb.