

CHAPTER TEN: ONLINE MARKETING

Incipit Ltd: The Art of Finding the Cyber-Customer

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Background

The last few years have been hard for the IT sector. Yet there are still optimistic people trying to create and build something in this new tough environment. In the year 2000 two students, Anders and John, tried to find a solution to the problem of finding somewhere to live for students at Halmstad University, by looking for possible portals to use. They came up with a new portal called 'Studentlyan' ('The student's den'). The idea was based on "Books-on-line" that helped students to find cheap books.

This new site was a way for students to get in contact with people who had rooms and apartments for rent. To start work with 'The student's den', they involved a third young man in the company, a marketing specialist named Ulf-Björn (one of their first customers). This was due to the fact that Anders and John were both more involved with the IT sector and didn't know too much about marketing. They felt ready to start the process.

It was a very successful introduction, and the solution for students finding accommodation, quickly became a national system used in most universities. In the beginning a large income was expected to come from banner ads. This was during the years when you could make a lot of money if you had a large number of visitors to your pages, and you knew a bit about who they were. If you could tell a company that their type of customers visited your site, they were willing to pay for the banners. The timing with the changing business situation, however, was not so good. At first they made some money from banner advertising, but the market for this was already quickly declining. If the market had been the same today as it was when the plans were made, each of the three men would be receiving an income double that of the income of the university's vice-chancellor – and this only from banners. However this is not the case.

Even if they had reasons to find the lack of revenue through this avenue disappointing, there were other factors that gave the company an advantage. Some years ago when there was a lot of money in the internet business, it was possible to make your customers pay what you asked for with advertising banners, etc. Nowadays customers are more careful and try to get the best possible price for everything they buy. This is good news for Incipit (as they now call themselves) as they planned that their software for a Web Content Management system (WCM) to be priced much lower than the competing products. Alternative systems can be priced from £35,000 up to £200,000. Compared to competitors they will be in the lower price range, as Incipit plans to have a price below £9,000. This means that the average price on the market will be several times higher than Incipit's. The change in environment that was initially a problem is suddenly an opportunity.

Of course the product didn't suddenly exist by itself. It had a historical background with development in several steps. Since the student union in Halmstad needed to improve their presence on the web, the three men got the idea to sell the tool for doing this instead of doing the job themselves. They soon found out that the existing solutions on the market were not so

fantastic. They thought that their own solution was at least as good as the alternatives. After doing some basic market research they found that there was a demand for a user-friendly and dynamic publishing tool. There was a feeling that the market needed a Web Content Management system (WCM) that was not too expensive. The key features for this product they wanted to sell were: a 'flexible system' to administer a web site, 'powerful' functions (a new site in less than five minutes), and 'intuitive system' (user-friendly).

The idea to introduce this to the market and take market shares, continued to grow. To finance the initiative and survive during the preparations there was a lot of consulting and smaller projects undertaken for about a year. It can be hard to be new in business and know exactly what to do. At the same time it was a very important decision since it meant the company would change their strategy from being a portal administrator to being a software supplier. Not so easy to know if it was a step in the correct direction. But there was help to be had.

Support from the environment

Being connected to Halmstad University, the group had the opportunity to use offices on the university premises. There are several buildings especially for newly started students' companies. This is a way to help them in the early stages by avoiding high costs and to create a knowledge network. Incipit also had a contact with an organisation called 'Connect Halland', who helped companies in the district to get in contact with risk capital investors. They were invited to what's known as 'The springboard'. Here they were asked to do a written business plan and to present this to a group of experts and investors. This involved considerable work, but as they didn't want to continue with only consulting and almost no business development, they decided to give it a go. They spent some time during the spring of 2002 working on the business plan and came to the meeting with the experts feeling very confident about the possibilities for the future. To build something slowly was not something these men considered.

The meeting

After working really hard and coming to the meeting with a 25-page business plan, including figures that could convince any accountant that this was a perfect opportunity, the young men felt optimistic. In the expert group were bankers, accountants, investors, etc. So group felt that this type of plan was what they would want to see. However, they soon found it difficult to find answers to the questions from the expert panel. Since there wasn't really a problem with the figures the group concentrated on what was NOT in the papers. Namely, WHO is the customer? The plan included figures on competitors' prices, possible prices, how many products were needed to sell to break-even, etc, but they could not say where or how to find the customer, or more precisely, what the market was and where it was. Most of the experts thought the product was very good, and at least one gave them his business card for future contacts with his company, but thinking about Incipit in investment terms was still based on hope and optimism.

Some weeks later

Our entrepreneurs thought about the situation for some weeks. In a way they understood the expert's opinions, but at the same time they could not see how to give the answers they required. They felt that it was much easier for the large traditional companies to answer these sorts of

questions, as they had experts doing this type of work and they also know more precisely where to find their customers. They know in which geographical area to look and it's more obvious when and how to make a contact with them. They also felt it was easier for large companies with hundreds of customers to use traditional marketing theory and talk about segments and targeting, than it was for smaller start-up companies.

Incipit Ltd felt that on the net it could take some time before you knew who your customers were and their characteristics. Especially when you are a new company with little experience. If you don't know your customers you have to aim at a group that you hope will be correct. The traditional way to use marketing research would really be like searching for a needle in a giant haystack. The company's marketing expert didn't believe in making sales over the phone. He believed that to sell something worth more than £5,000 you needed personal contacts. Of course it is always possible to find companies and organisations on the net that could have some use for the software, but it's a long way before they actually buy the product.

The practical problem is that every time you find a potential customer and you make a contact you will most likely end up with the wrong person. If you get a contact with top management they normally say you should speak to the person in the company responsible for web production. If you reach this person, they are seldom interested in knowing they're not doing such a good job. As no one else really knows about the job, they prefer to avoid external criticism. Even if they are doing a good job, a more efficient tool could make them redundant. In short, it is easy to see the need for the product whilst surfing the web, but it can still be very hard to sell it because of corporate and personal reasons.

One method that Incipit has tried to identify customers is by attending trade fairs. There is a good chance to get some results once you have made first contact and follow-up jobs may ensue. You may find ten interesting contacts, but it is enough to make just one of them into a customer to make some money from it. A similar technique that Incipit employs is through membership of different sorts of organisations, such as the local Marketing Association. Through this you have a personal contact network, and if they feel the need for a web solution they know about you. As they say at Incipit "It's needed to be known even before they feel a need, but especially WHEN they feel the need". Most of the time they don't have many alternatives, and they will not look for more if they know about a company that they trust.

The future

The company plans to improve its personal networks. As they don't really know where to find the customers, this will hopefully be a way to locate new customers. Or perhaps it's more correct to say to make the customers find them. They will also look for potential retailers for the portal. This is a risk-free way to reach the market. The retailer will get 30-50 % commission, but if they don't sell anything there will be no cost. The most obvious change for the future is in the company's organisation. They plan to employ a managing director, a salesperson, a system developer, an administrative assistant, and other support staff in 2003. In their business plan they describe how they are going to use a 'co-operative management style', and payment will depend on the financial result. However, to get highly qualified personnel to accept these positions it will most likely be necessary to have the majority of the salary fixed, with performance-related profit-sharing. This means there will be more costs that are more-or-less fixed and it will be absolutely imperative to increase turnover to survive. A failure here will probably force the company to close down.

When it comes to finding the market they are still not entirely sure about how to do this, and also unsure as to how to use the information collected from undertaking market research. The dilemma is the requirement to find the market to get the risk capital, against the limited resources of time and money that exist at the moment.

The most important issue can be summarised in the following way: How and where do you find customers when they can be almost any type of individual or organisation? Furthermore, perhaps is it more important to know if their customers want to use the web page in an active way and invest the resources needed to do this? The companies willing to do this can also be small companies - how do you find those customers?

QUESTIONS

1. Could we say that for some businesses it is impossible to make analysis and plans? This is because you will risk turning down projects that could have been a success, or the company will proceed too slowly with the introduction, and competitors will get there first?
2. Has the Internet got a different and better way of reaching the customer? Can it be that instead of targeting 100 possible customers, you throw "a billion arrows" at the target, knowing you will get plenty of "bulls eyes"? In other words, when it is so easy and cheap to reach billions of people by the Internet, why bother about being selective in the communication?
3. What can we say about the planned increase of staff? Would you feel differently if you came from the perspective of a finance department or a marketing department?
4. Are there any low-cost ways the company can search for customers or do market research? Can you find any other advantages of searching for customers on the Internet than just low cost?
5. If you compare advantages of being on the Internet with the problems created by this environment, what conclusions do you make about the Internet from a marketing perspective? Start with a list of pros and cons, and use this to make a judgement of the whole situation.