



Seeds...

Issue Number 5

This issue of *Seeds...* continues our practice of bringing you observations and suggestions based on our market research and consulting projects. We have heard from some of our readers and have passed on additional information upon request. We'd like to hear from you regarding questions and subjects you would like covered in future issues. Please send them to the Editor at the address listed at the bottom of Page 4.

Market Research

One issue to consider when conducting a market research project is how many interviews should be conducted to obtain statistically reliable information.

Statistical reliability is traditionally expressed in confidence levels and error limits. Confidence level is the expected repeatability of findings.

A confidence level of 90% means if the research were repeated 100 times at random, the same results would be obtained 90 times. All research

measurements taken have specific error limits usually ranging from 3% to 5%.

There is a trade-off between the cost of the research and the statistical reliability needed. For example, the table below shows the number of interviews required to obtain a 90% or 95% or 96% confidence level for the population of universe of the market segment studied.

If the population of our target universe were 100,000, you can visualize the difference in your research cost to move

from a 90% confidence level to a 95% confidence level to a 96% confidence level. Obviously the cost to complete 621 or 400 interviews is substantially higher than completing 100 interviews.

Trade-off depends on the type of research conducted and the importance of the decisions to be made as a result of the findings. When large capital investment decisions hinge on the research results, it is a wise decision to pay for more statistically reliable information.

Population of Universe (N)	Confidence Level (R)		
	96%	95%	90%
50	-	44	33
100	-	80	50
500	-	222	83
1,000	385	286	91
3,000	517	353	97
5,000	556	370	98
10,000	588	385	99
20,000	606	392	100
50,000	617	397	100
100,000	621	400	100

You can calculate this table yourself by using the formula:

$$R = 1 - \sqrt{\frac{N - n}{Nn}}$$

Where: R = Confidence Level
 N = Universe Size
 n = Number of complete interviews

Pricing

One of the last activities considered in a company's product development process is the pricing strategy for new products. Of Allegheny Marketing Group's last 5 pricing studies, 4 were undertaken within a month of the product launch date.

Based on these most recent new product pricing studies, we offer the following suggestions for setting pricing strategy:

1. If in doubt about initial price levels, pick a price slightly higher than:

- a. your market research indicates
- b. your competitors' equivalent product
- c. your sales force suggests
- d. your marketing team is considering.

If the pricing is wrong, you can lower the price immediately. It is difficult to raise prices after a new product hits the market. In addition, many customers are willing to pay higher prices for new products with the expectation that prices will go down later.

2. If your new product is a "me-too" product, pick a price equal to or slightly lower than:

- a. your major competitors' equivalent product
- b. the lower end of the industry price band for the "me-too" product.

The customers are not normally willing to pay an initial price higher than existing products – even based on the promise of high quality. Your internal organization usually over values a "me-too" product.

3. If your new product is filling a "hole" in your larger product portfolio, pick a price based on:

- a. functional differences between your products
- b. value perception of the product by customers (not your cost)
- c. minimal cannibalization of the existing products above and below the new product.

4. If you truly do not know what the initial price level should be, then:

- a. conduct some focus groups with customers to determine value perceptions
- or b. conduct a market research study to determine trade-offs between price and features
- or c. start with a very high price and be flexible to lower the price when needed.

Marketing Quality

In previous *Seeds...* issues, we discussed the perception that marketing is an art, not a science -- the implications being that quality marketing is not a measurable activity.

The difficulty many organizations face in measuring the quality or effectiveness in the Marketing arena comes from a lack of established standards. Measurements are normally taken in terms of sales volumes. If sales are good, then the assumption is Marketing and Sales are doing a good job.

The lack of standards presents a problem when you attempt to measure Marketing Quality. There is nothing to benchmark against. That's why most Marketing Quality checklists contain a long list of activities with questions answerable only by "yes" or "no".

Before starting on a quest to measure your Marketing and Sales Quality, we recommend the establishment of internal standards. The following tables provide a framework and examples that can be used.

Marketing Standards	
<p>Strategic Marketing</p> <ul style="list-style-type: none"> • Continuous Information collection about customers and competitors is made every week. • Market Information is sorted and analyzed by a team once a month. • The company is positioned as either #1 or #2 in each target market (based on market share). • A new target market is established at least once a year. 	<p>Pricing</p> <ul style="list-style-type: none"> • Obtain competitive pricing feedback on 60% of bids/proposals • Improve price levels by minimum of 1% in flat or declining market and 3% in growth market. • Improve direct product margins by 5% through improved product mix. • Establishment of real-time price measurement system with employee incentive for improvement.
<p>Product Information</p> <ul style="list-style-type: none"> • There is a minimum of one new Product Introduction per year. • Product Introduction schedules are met within +/- 15 days of original schedule. • Sales objectives for new Product Introductions are exceeded each month for first 6 months. • Less than 10 customer questions are asked each month. 	<p>Managing Market Channels</p> <ul style="list-style-type: none"> • Decrease cost/sales ratio by 3% each year. • Decrease distribution cost by 5% each year. • Increase in number of new customers minus lost customers by 10 per year. • Increase turnover rate of channel personnel (less than 3 turnovers per year).

Sales Standards	
<p>Customer Knowledge/Contact/Presentations</p> <ul style="list-style-type: none"> • Each salesperson knows each major customers' - <ul style="list-style-type: none"> • bid evaluation criteria • decision maker and influencers • current problems relative to his products • Each salesperson spends a minimum of 40% of regular working hours face-to-face with customers. • Each salesperson rehearses 50% of their customer presentations. 	<p>Internal Communications</p> <ul style="list-style-type: none"> • Lost and won negotiations are provided to operating units at least 60% of the time. • Customer complaints are communicated within one hour of notification. • Each operating unit (factory) is contacted weekly to review customer and competitor activity.

The above standards are not all inclusive nor do they necessarily represent standards for your business. They do, however, represent expectations and provide an actionable direction. Once established, your organization has set a benchmark to measure Marketing and Sales Quality levels appropriate to your business.

Thoughts

"The problem is not to suppress change, which cannot be done, but to manage it."

Alvin Toffler, Future Shock

"If you haven't got the time to do it right... when will you ever have the time to do it over?"

Evan Schwartz, Business Week

"The customer is always right... sometimes confused, misinformed, rude, stubborn, changeable, and even downright stupid... but never wrong."

Anonymous

There is only one boss - the customer. And he or she can fire everybody in the company from the Chairman on down by simply spending his or her money elsewhere."

Sam Walton, Wal-Mart

"A desk is a dangerous place from which to watch the world."

John LeCarre, British Author

"Experience is yesterday's answer to today's problems."

George Bernard Shaw, Playwright

"Experience is knowing a lot of things you shouldn't do."

William Knudson, Industrialist

"Experience is the name everyone gives to their mistakes."

Oscar Wilde, Author

Please send any comments or suggestions to:

The Allegheny Marketing Group

Attn: Editor

1101 Parkway View Drive

Pittsburgh, PA 15205

Phone: (412) 787-4166

www.alleghenymarketing.com

E-mail: info@alleghenymarketing.com

THE
ALLEGHENY
MARKETING
GROUP
