

MARKETING REALITY FOR A SOFTWARE START-UP

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ABSTRACT

Although the Internet bubble has collapsed since 2000, producing “killer apps” remains the objective of many new software ventures. However, no matter how alluring the business idea may seem, without some kind of marketing strategy the venture will likely have a short life or fail before it is started.

Successful firms have a deep knowledge of their industry. They are familiar with the customers, markets, products and the competition. They are well acquainted with market research, competitor analysis and product positioning.

This paper will illustrate the importance of market assessment from the perspective of a small software business start-up, called Maxout, launching eMaxout – a stand-alone software for hotel yield analysis. The paper aims to illustrate through Maxout how market assessment can help small software business entrepreneurs gain insights for assessing opportunities and threats in their business environment by using a simple marketing assessment framework.

EXECUTIVE SUMMARY

Every new venture seeks to utilize innovation to achieve a profitable business. However, no matter how alluring the business idea may seem, the entrepreneur should not rush out to start a business. There are steps that must be taken first.

The entrepreneurs who succeed have a strong knowledge of their industry. They have worked in the industry for many years and are familiar with the customers, markets, products and the competition. They know how each competitor functions in the industry and are well acquainted with the features and failures of all the various products. As well, they are aware of current trends and the level of technology within the industry. All of which are factors that affect the success of a new business venture.

But what does the inexperienced entrepreneur do when he has an idea he wants to form a business around? Then, it becomes necessary to establish an essential marketing strategy and to understand the basic marketing mistakes to avoid. These mistakes can lead to the failure of the business venture.

This paper explores basic marketing research, competitor and product positioning concepts from the perspective of a small software business start-up, and highlights mistakes that typically lead to failure. We shall seek to show how to avoid those errors and what needs to be done to do so effectively. Avoiding common errors and analyzing the research data allows new firms to develop their marketing strategy approach.

When starting a business, it is necessary to research the market and the competition. The new start-up must understand the markets and customers. Understanding the markets and

customers enables the new firm to determine whom its customers are and what problems they are looking to solve. All new firms will have competition, thus it is necessary to identify them and it is possible to learn from them. Knowing the competition enables the new firm to determine where and how it should position its offerings against the competition. These are the essence of marketing assessment, and this paper provides a framework as a step-by-step process guide for assessing the market and competition for eMaxout – a hotel yield analysis software.

DEDICATION

I wish to dedicate this effort to my wife, Elizabeth Rowe, for being a study maniac's widow for the past few years while I finished my education.

Ilkka Salokannel

To my grandparents who inspired me to be, and to my parents who provided the nourishment. To Sunny for always pointing me to clarity. And finally to my wife Nancy for her unquestioning support.

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This project has been an enjoyable experience for both of us from the learning and friendship perspectives. Our equal partnership in this project has deepened our insight, and strengthened our appreciation for the unique synergy each of us brings to the project, making this collaborative effort more meaningful than what we can accomplished alone.

Ilkka and Willion

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GLOSSARY

Four P's of marketing	Product, Price, Place, Promotion
IBM	International Business Machines
ICT	Information and Communication Technology
MS	Microsoft
MSExcel	Microsoft Excel
PC	Personal Computer
SOAP	Simple Object Application Protocol
SWOT analysis	Strengths Weaknesses Opportunities and Threats analysis
XML	eXtensible Markup Language

1 Introduction

Maxout is a new small software start-up launching eMaxout – a hotel yield analysis software intended as an easy to use tool for hotel managers to forecast average room rates that will optimize revenue over the forecast period. The Maxout slogan is “Maximize your profits! Maxout is the emerging online leader in hotel assistance to max out your inventory effectively.”

The founder of Maxout noticed, in his work in the hotel industry, that reservation managers made pricing/occupancy decisions on the basis of experience and gut feeling. Their decisions are not based on mathematical yield management models. Thus they would state “I think we should increase the rate by \$10” without any basis to determine that the \$10 rate increase is the optimum choice for given circumstances. Perceiving an opportunity, the founder created eMaxout and started Maxout to launch it.

eMaxout is an Excel based application that takes historical and forward data such as average room rate, cost, occupancy ratio and forward room sales, and returns demand versus forecast comparisons with recommendations for rate increase or rate reduction.

Being a new start-up company, Maxout has only two members, the founder and a friend who is responsible for sales. They have a product and have created an e-commerce website for point of sales contact. Neither individual has a business or managerial background. Their question is “Now what do we do?”

1.1 The Maxout Problem

Being typical enthusiastic entrepreneurs, Maxout makes the following claims:

- No one does what we do!
- We have no competition!
- Every hotel will need our product!

They lack the resources for and also do not seem to see, any need for market research and competitor analysis. But they do know that they need a business plan. Unfortunately, the market research and competitor analysis previously mentioned are included within a business plan.

Failure to conduct basic marketing research, understanding competition and the types of competing products in the market are common mistakes that lead to start-up failure (Solovic, 2004).

Therefore, the project scope shall examine the common mistakes made by small software start up firms in order to point out to Maxout what they need to avoid. This project will concentrate on these mistakes as they pertain to target market, competitors, and product positioning. Also, this project intends to examine the factors related to marketing that will lead to a successful software start up. From this research will be developed a set of start up implementation plan guidelines, which will assist Maxout in deciding “What next?”

1.2 Project Objectives and Methods of Investigation

1.2.1 Project Objectives

The objective of this project is to provide a framework and some tools for Maxout to develop a marketing strategy. The project will examine software start-up successes and failures as they pertain to:

- Target Market
- Competitors
- Product Positioning.

This will advise Maxout regarding the two or three key mistakes in the above categories to avoid and what factors apply to their start-up firm and chosen industry.

1.2.2 Methods of Investigation

- Internet research
- Library research
- Business journal research
- Interviews with individuals within the specific industry.

1.2.3 Scope of Academic Paper

- Research into small business start-ups
- The typical problems that small business start-ups encounter in
 - Target Market
 - Competitors
 - Product Positioning
- What are typical factors to avoid these mistakes for small software business start-up?
- Start-up Implementation Plan Guidelines Checklist and recommendations.

1.2.4 Not Included in the Scope of This Project

- Comprehensive Market Research
- Comprehensive Competitor Research
- Product Positioning
- Product Pricing
- Product Promotion
- Business Plan.

This paper will focus on the following key aspects of market research as they apply to

Maxout:

- Understanding the markets for Maxout:
 - Understand the marketing macro environment
 - Segment the market
 - Develop and analyse customer profiles
- Understanding Maxout's competition
- Tools for establishing Maxout's product position.

2 Understanding the Markets for Maxout

2.1 Chapter Introduction

Sun Tzu said over 2000 years ago: One who knows the enemy and knows himself will not be endangered in a hundred engagements. One who does not know the enemy but knows himself will sometimes be victorious, sometimes meet with defeat. One who knows neither the enemy or himself will invariably be defeated in every engagement. (Sawyer, 1994, p.179)

A narrow view focusing on the reward of the business opportunity or the lack of resources often results in the small business entrepreneur overlooking the importance of, or the need for, market research. A lack of understanding of the market often results in a company being out of business before it is started (Solovic, 2004). Donald Hendon said in his book *Classic Failures in Product Marketing* (1992) that “If you ever visit the International Supermarket and Museum in Naples, New York, you’ll find on its shelves more than 60,000 consumer products that have failed in the U.S. supermarkets.” (p.3). He indicated that according to Dun and Bradstreet over 25% of new businesses started in the United States fail within a year, and 50% of the products are less than five years old; Canada will likely have similar statistics. Hendon pointed to the following as some of the major causes of venture failures:

- Goals not clearly defined
- Products or services neither new nor different
- Not doing market research, doing poor market research, or ignoring the findings
- Not paying attention to the competition
- Poor positioning.

Assuming that the Maxout founders have clear goals for eMaxout, it remains a product in search of customers, but who are the customers? How do potential customers make their purchasing decisions and what triggers their “buy” decision? Who should we sell to first?

Market research can help answer these questions and develop a marketing strategy that shines light on further insights for formulating a business strategy around the business idea (Johnson and Scholes, 2002). This chapter will address points 2 and 3 above; subsequent chapters will address points 4 and 5.

Marketing is in part the art of discovering the most suitable customers for a product or discovering the most suitable product for a group of customers. The former is readily applicable to eMaxout, and the latter may result in opportunities that Maxout can take advantage of immediately or parlay into future potential for growth. Research essential to formulating a viable marketing strategy include the following key areas:

- Understand the marketing macro environment
- Segments of the market
- Develop and analyze customer profiles.

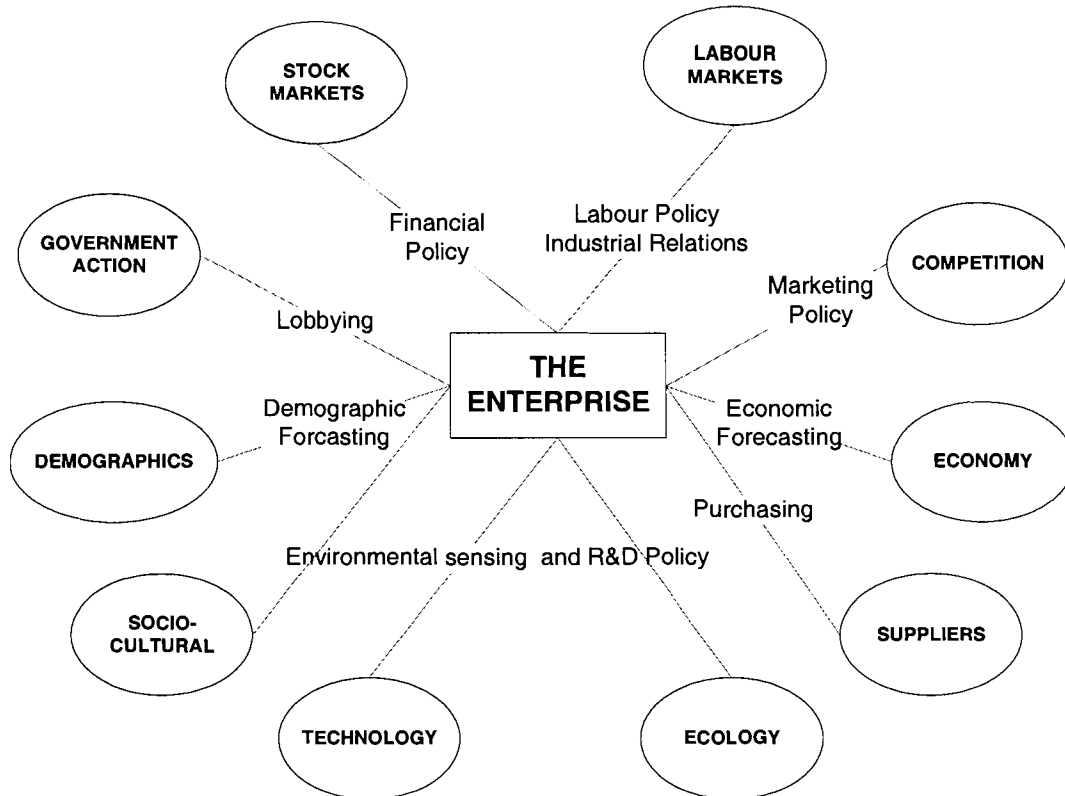
2.2 Understand the Marketing Macro Environment

In order to recognize opportunities and threats a firm must understand the marketing macro environment surrounding it. The marketing macro environment is defined at a high level by the following factors:

- Demographic factors
- Social factors
- Economic factors
- Environmental factors
- Technology factors
- Socio-political factors.

Another way to view the business environment is shown in the following diagram. This places the firm in the centre of a web of influences that all need to be considered when trying to understand the macro environment.

Figure 2.1 Business Environment



Adapted from Johnson & Scholes, 2002, p.100

2.2.1 Scanning the Environment

A simple framework utilized for business environment scanning is PESTEL (Johnson & Scholes, 2002, p. 99). PESTEL stands for Political, Economic, Socio-cultural, Technical, Environmental and Legal changes in business environment. Having an awareness of these factors and how they can affect the new venture business can be crucial to the firm's success. However, some factors may be more important than others, depending on the business.

2.2.1.1 Political

A number of factors relating to the political world can affect the business. These include the stability of the government, taxation policies, foreign trade regulations and social welfare policies. High taxes can cause businesses to move to jurisdictions with lower rates. Political instability due to civil war or terrorism can chase business out of the country. Government

restrictions on the trade of sensitive defence related technology would hamper the options of a high-technology business. Social welfare policies can increase the cost of doing business. All of these factors become further complicated when dealing with a multi-national business.

In the case of eMaxout government initiatives on tourism development and education can be important political environmental factors. Will the move of Tourism Canada to Vancouver be a positive for a company trying to reach accommodation operators across the country?

2.2.1.2 Economic

Factors that result from the economic sector include business cycles, GNP trends, interest rates, money supply, inflation, unemployment and disposable income. Some businesses do most of their business in the summer, some in the winter. If the GNP is increasing, the business is booming, while growth may stall when the GNP stalls. Interest rates, inflation and money supply affect the firm's access, ability or desire to borrow and can change the firm's financial plan. Unemployment levels directly affect a firm's access to ready labour. Disposable income reflects the ability of the consumer market to purchase the products that firms produce. Thus, economic factors need to be considered in a business's plans.

Increases in disposal income driven by economic growth will generate higher demand for travel and lodging. Hotels seeking higher returns from existing physical assets will place greater emphasis on yield management.

2.2.1.3 Socio-Cultural

The factors due to the socio-cultural aspect relate to population demographics, income distribution, social mobility, lifestyle changes, attitudes to work and leisure, consumerism and the level of education. The high technology boom of the 1980's caused changes in all of those factors. If the firm operated across the globe, due to globalization, how would that affect the

business? Attitudes toward travel and leisure have been changing to favour more unique experiences, creating opportunities for smaller more intimate accommodation, with a more local feel as compared to the chains that are the same across the world.

2.2.1.4 Technical

Government spending on research, government and industry focus on technological effort, new discoveries and developments, speed of technology transfer and the rates of obsolescence are technical factors that have direct and radical effects upon a firm. In high technology, firms were able to take advantage of government tax grants for technology research. The influence of the Internet has been felt in every sector. In the accommodation sector, the Web has enabled travellers to seek out, learn about and make reservations with small local hotels that they would not otherwise have access to.

Technology is a particularly important environmental factor for eMaxout. What is the optimal technology platform for eMaxout to be on? How would technology shape the implementation of yield management models and tools? How does eMaxout work with online reservations? The speed of technological change can make the firm's research obsolete. New technology when developed by competitors or new entrants to the marketplace may leapfrog the firm's efforts.

2.2.1.5 Environmental

The current environmental protection laws, waste disposal requirements and energy consumption/availability can also affect the business. The environmental movement and the concern for being "green" may have an impact on how the firm does business. In the past firms simply dumped highly toxic chemicals into rivers. This is no longer possible due to waste disposal regulations. Even if energy consumption is not a problem for the business, is it critical

to the customers? Is it important for the firm to be a good corporate citizen in the local community?

Although it is not likely that the production and use of eMaxout will result in noticeable environmental degradation, it is important from a marketing perspective that potential negative associations be identified early on to avoid unwitting associations. Advertising the testimonial of a client with a bad environmental record could have Maxout perceived as guilty of being a bad corporate citizen by association.

2.2.1.6 Legal Changes In Business Environment

Employment law, monopolies legislation, health & safety, intellectual property laws and product safety considerations can affect the business. Simply firing an employee can lead to a time-consuming court case and a costly settlement. Monopoly legislation restricts competitive entry, but legislation can be changed as shown by the break up of telecommunications monopolies. Failure to follow workplace health and safety regulations can result in serious injuries, further law suits and the firm's production site can be ordered to be shut down. Infringing on someone else's patent can also lead to court cases and very costly settlements. Product safety liability can also be another nightmare for a firm.

In a modelling centric product such as eMaxout intellectual property infringements, such as the unauthorized use of proprietary yield modelling approaches, can result in business failure.

The PESTEL framework in Table 2.1 summarizes the major environmental factors that a business should scan.

Table 2.1 Business Environment Factors

PESTEL Framework	
1) What environmental factors will affect the organization? 2) Which of these factors are the most important at the present time? In the next few years?	
1) POLITICAL	1) Government Stability 2) Taxation Policy 3) Foreign Trade Regulations 4) Social Welfare Policies
2) SOCIOCULTURAL FACTORS	1) Population Demographics 2) Income Distribution 3) Social Mobility 4) Lifestyle Changes 5) Attitudes To Work And Leisure 6) Consumerism 7) Levels Of Education
3) ENVIRONMENTAL	1) Environmental Regulations 2) Waste Disposal 3) Energy Consumption
4) ECONOMIC FACTORS	1) Business Cycles 2) GNP Trends 3) Interest Rates 4) Money Supply 5) Inflation 6) Unemployment 7) Disposable Income
5) TECHNOLOGICAL	1) Government Spending On R&D 2) Government And Industry Focus On Technology Effort 3) New Discovers/Developments 4) Speed Of Technology Transfer 5) Rates Of Obsolescence
6) LEGAL	1) Monopoly Legislation 2) Employment Law 3) Health And Safety 4) Product Safety 5) Intellectual Property Laws

Adapted from Johnson & Scholes, 2002, p. 102

For Maxout the appropriate marketing macro environmental questions may include:

- What economic variables would drive the adoption of yield management practices by the hospitality industry?
- How would industry trends affect the way yield management is practiced by the hospitality industry?
- How would technology shape the form and function of hotel yield management tools?

Let us consider this hypothetical revenue management scenario for an independent hotel operator and examine how the marketing macro environment may impact Maxout:

The Internet, economic conditions and consumer trends continues to sustain the growth of third-party online hotel booking and ACME Inn has found that using third-party online sites has improved business and revenue. ACME Inn establishes its room rate on a monthly basis and communicates the new tariff to third-party sites. However the general manager of ACME has discovered that during the busiest week of the peak season, the relationship has resulted in lost revenue because of pricing disparity between the sites and what ACME advertises. Further investigation has revealed that his revenue manager had downloaded a trial copy of Maxout prior to the week in question and was setting and advertising room rates based on Maxout's yield modelling results, and the results advised rate increase for that week. However the rate increase was never communicated to the third-party sites through their new XML based interface connection and the pricing disparity resulted in a booking increase of 80% from third-party sites. Having determined the cause the general manager decided that any yield analytic tool purchased for ACME must be able to interface with third-party sites to prevent rate disparity. He ruled out purchasing eMaxout because the product does not have interfacing capabilities.

The hypothetical scenario above illustrates how ignoring economic and technology factors can negatively affect Maxout's ability to compete. Paying attention to these factors can reveal hidden opportunities. Microsoft has recently announced that it plans to work more closely with hotels by working with systems integrators in establishing a hotel oriented system architecture base on Microsoft's BizTalk server technology (*Source: InformationWeek, Nov 29, 2004*). The possible reason behind Microsoft's move and broader implications to Maxout in terms of markets, customers, competition and product positioning will be discussed in subsequent sections of this chapter and later chapters of this paper. The fact that Maxout is built on a Microsoft platform means that the fate of Maxout is intimately connected to changes in Microsoft

technologies, the marketing strategy and the adoption trend of Microsoft products by Maxout customers. Given Maxout's dependence on the Microsoft platform and the ubiquity of MS products, how should the relationship be viewed from Maxout's perspective?

Therefore grasping the fundamental forces at play in Maxout's marketing macro environment will help the firm to segment the market to identify customers for Maxout.

2.3 Segment the Market

A market segmentation exercise is about "identifying groups of customers that are similar enough that the same product or service will appeal to all of them" (Christensen and Raynor, 2003). Segmenting the market for Maxout is important because "the major cause of (new venture) failure is management and its inability to recognize the market place and accurately assess market size and accessibility" (Zacharakis, Meyer, and DeCastro, 1999, p. 9). Research has demonstrated that entrepreneurs commonly perceive that they are astute in their perception of business opportunities and market potentials, and attribute failure to external causes in order to spare their own ego (Zacharakis, Meyer, and DeCastro, 1999). A market segmentation exercise will also help the entrepreneur think outside of the box to spot otherwise unforeseen opportunities.

There are many demographic and psychographic dimensions that can help break down a market into segments and the following examples are applicable in the case of Maxout:

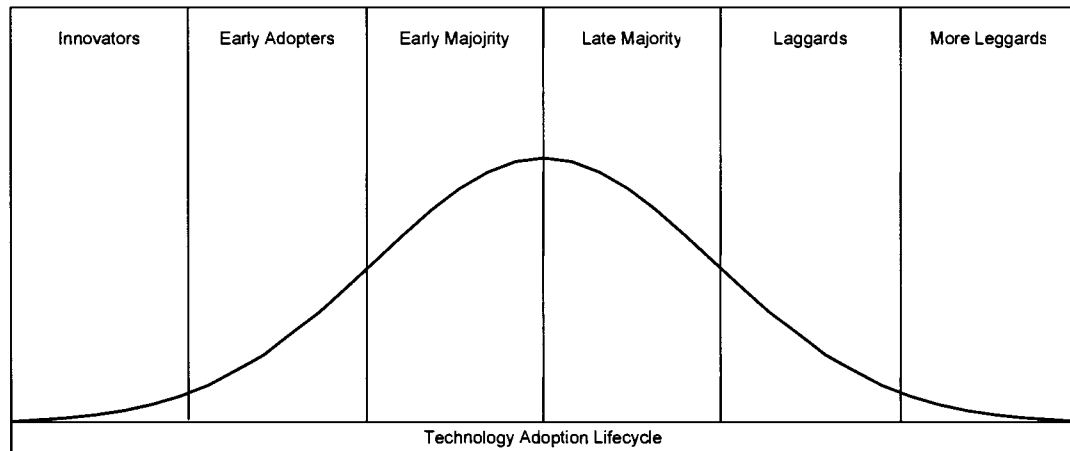
Table 2.2 Market Segmentation Dimensions

Dimensions	Segment 1	Segment 2	Segment 3
<u>Adopter Category</u>			
Adoption Issues			
Relative Advantage(s)			
Complexity			
Complementarity			
Observable			
Risks			
Divisible/Trial			
Attitude (Towards Yield Management Practice For Example)			
Geographic Distribution:			
Region			
City			
Growth Forecast			
Key Benefits Sought			
Monetary			
Other			
Needs Satisfied			
Perceptions Of Yield Management Tools			
Previous Consumption Experience			
Product Involvement Or Risk			
Profitability			
Purchase Motivation			
Relationship Issues Or Potentials			
Usage Characteristics			
How Much			
When			
For What Purpose			
Size			
Number Of Customers			
Potential Sales Revenue			
Potential For Penetration			
Lifetime Value			

Based on marketing assessment toolkit, Dr Colleen Collins-Dodd, 2004, SFU graduate marketing course

The adopter category mentioned in the table is an important dimension for Maxout, particularly those pertaining to Information and Communications Technology (ICT). The technology adoption dimension is based on Everett Rogers' technology adoption lifecycle, which was popularized by Geoffrey A. Moore during the information technology boom in the 1990s.

Figure 2.2 Technology Adoption Lifecycle



Based on Moore, 2002, p. 17

The technology lifecycle links technology adopters into five major segments, each with distinct characteristics (Moore, 2002):

Innovators – jump at the chance to use the product because they do not have anything and recognize the product as a solution to their particular need or problem.

Early adopters – take advantage of a new product to gain advantage or neutralize competitor advantage.

Early majority – pragmatists who make value based purchase decisions.

Late majority – conservatives who make value based purchase decisions.

Late adopters – conservatives to whom the product has become the industry norm and they cannot do business without it.

Laggards – those who will stick with the old no matter what, or only scavenge second hand if it is a matter of life or death to them.

In the ACME Inn case determining which of the above segments ACME falls in may have improved the odds for eMaxout. If ACME is in the early majority segment using Excel 2003 on Windows XP instead of Excel 97 on Windows NT, then building Web services publishing functions into Maxout with Microsoft's SOAP toolkit may have allowed the revenue manager to publish the new rates directly to third-party sites and to avoid pricing disparity. Unfortunately this was not done when the revenue manager was trying out eMaxout and the negative impact on revenue was observable.

The importance of the technology dimension will be further explored when Maxout's product position is examined in Chapter 4. Other than the above dimensions, what are some other ways to visualize the market segments for Maxout?

Customers, organizational or otherwise, view a product or service as something that they can hire to do a job (Christensen and Raynor, 2003). For example applying a segmentation approach focusing on the needs of Maxout's customers may yield the following:

- Hotels would "hire" eMaxout to "optimize" revenue.
- The author of a new hotel management book would "hire" eMaxout to "boost the value" of his book by packaging eMaxout in the books accompanying CD.
- The academic director of a university hospitality program would "hire" eMaxout as a "teaching aid" for students.

To further segment hotels for Maxout and describe them in terms of Adoption and Attitude the question to ask may be: How would their attitude towards adopting yield management and technology affect Maxout's fortunes?

Yield management is widely used in the airline industry and has steadily moved into the hotel industry because airline seats and hotel rooms are both perishable goods with long lead times for future capacity (Lai and Ng, 2005). Yield management began to be used in the airline industry over 40 years ago and has been migrating slowly into the hotel industry for the past 20 years.

Hotels that look to grasp the value of yield management and are technology savvy early on would have leveraged early age ICT, perhaps before Microsoft came into prominence, and developed yield management capability in-house. As early adopters on the technology adoption lifecycle, they look to yield management and ICT as change agents. Others, the early majority, see the opportunity for productivity gain and follow suit. Customers in these segments would have already established yield management as an organizational competence embedded in business processes and enterprise systems. To them a standalone Excel based yield analysis tool offering limited analytical capacity, such as lacking the ability to handle variables of unknown numbers of arrivals, length of stay, and the number of occupancy per room may be too limiting.

An Excel based hotel yield analysis tool may be more attractive to end users who are either too busy or perhaps unsophisticated in yield management analytics and ICT, and are looking to automate their tasks. These two form different segments for Maxout with the latter being late majority or laggards on the technology adoption lifecycle, and have implications on how it should be positioned against competitors, which in this case includes in-house developed solutions. Since late majority and laggards are technology conservatives, they are unwilling to pay a premium price, which then has implications on how eMaxout is to be priced. Pricing is not discussed in this paper but it is one of the four P's of marketing and Maxout will have to explore their pricing in comparison to the competition.

Another way to differentiate the segments is to try and understand the consumption experience of customers by learning how their business works (Moore, 2002). Talking to the customers directly is one way to find out their experience. Other indirect sources can also be effective (see Table 2.3 below).

Table 2.3 Market Research Sources

Source	Source Specifics
The Competition	Sales Personnel At Tradeshows
	Product Specification Sheets
	Sales Literature
	Annual Report
	Press Releases
	Competitors Local Town Newspaper
	Competitors Websites
Customers/ Market	
Industry Associations	Association Newsletters
	Association Website
Industry Trade Journals	Published Industry Papers
Government Websites (US And Canadian)	Strategis Website
	Industry Canada Website
Industry Experts	
Investment Analysts	
Industry Suppliers	
University	Academic Research In The Field
Internet Search	
Stock Market	Public Competitor Annual Reports

Salokannel & Szeto, 2005

Understanding the marketing macro environment for Maxout can better guide the segmentation, and segmentation will help develop specifics around which Maxout customers can be profiled.

2.4 Develop and Analyse Customer Profiles

The resource allocation process of an organization “is powerfully driven by the values of the organization, which...are the criteria by which managers and employees make prioritization decisions” (Christensen and Raynor, 2003). Developing profiles for customers allows the firm to capture the buying behaviour of customers and form specific tactics to positively influence the behaviour (Shapiro et. al., 2002), in short it helps to understand their purchase decision process.

Table 2.4 outlines the dimensions that can help frame the profiles of customers.

Table 2.4 Customer Profile Dimensions

Customer Profile Dimensions	Segment #1	Segment #2	Segment #3
Who Decides Strategic Leverage In Market Chain			
Need Recognition (When, Where, How)			
Information Search (What, Where, When, How, How Much)			
Product Evaluation Beliefs About Product Benefits/Costs Value/Importance Of Benefits/Costs Price Sensitivity			
Product Choice Purchase Situation			
Post Purchase Satisfaction Post Purchase Activities Repeat Purchase Loyalty			

Customer Profile Dimensions	Segment #1	Segment #2	Segment #3
Demographics Age Gender Family Income Education Location			
Demographics (Industrial Markets) Industry Company Size, Age Location Technologies			
Social/Cultural			
Values/Lifestyle			

Based on marketing assessment toolkit, Dr Colleen Collins-Dodd, 2004, SFU graduate marketing course

The “Who Decides” dimension is important to Maxout. Would the revenue manager be the key purchase decision maker, or would the final decision lie with the technology manager, or would they both be involved in the purchase decision and to what degree? The answer is important in a number of ways because (1) it affects how other dimensions of the customer profile are described and evaluated, (2) it points to the channels of distribution that are effective, and (3) it may reveal undiscovered customers. Where is Microsoft positioned in Maxout’s supply chain? How does the customers’ technology adopter category affect Maxout’s targeting strategy?

Indications are that Microsoft Office products such as MSEXcel have reached commodity status (Christensen and Raynor, 2003) because their performance has overshot the requirements of their installed base, otherwise known as having arrived at “main street” in the technology adoption lifecycle (Moore, 1999). This then translates to the tendency for Microsoft to adopt what is called the “product + 1” marketing stage for MSEXcel (Moore, 1999) and focuses more on end users. “Product + 1” means Microsoft will be looking to develop or shop for specialty add-ons that can augment existing products, like MSEXcel.

Analogously Christensen contends that product improvement reaches a point where it is no longer possible to get a premium price for better performance. Commoditization is unavoidable as technological progress advances beyond the customers' ability to utilize that progress. Brand is helpful when the firm is marketing up, but not marketing down, when the brand itself can become commoditized. The "law of conservation of modularity" means to sub-optimize a component to allow the whole products portfolio to be optimized.

Greater product differentiation can help Microsoft combat the commoditization by finding healthier margins in niche markets for the MS portfolio of products. Can Microsoft and its value-adding partners become customers for Maxout? Will they become customers or competitors? Chapter 3 will reveal how learning from the competition can be rewarding, and how benefits can be gained by walking the balance between friends and enemies. For example, the PI Datalink product, as an MSExcel add-on, is a cornerstone of the PI software and is a key differentiator for MSExcel – a mutually benefiting relationship. The notion of MSExcel commoditization is in alignment with the previously mentioned notion of eMaxout users being late majority or laggards on the technology adoption lifecycle. The good news is that, if so, both Microsoft and eMaxout customers will look favourable to having eMaxout being an MSExcel add-on; the bad news is that neither likes to pay for it (see Chapter 4 for more) – just consider that Microsoft Office 2003 can be bought for less than US\$200.

Depending on resources available to the entrepreneur some of the techniques that can help develop accurate customer profiles are listed below.

2.4.1 Delphi Technique

This is a focus group of industry experts, analysts, managers and others. Each person in the group is sent a general questionnaire, which they fill out and return within a specific time frame. The results are collated and returned to the group for further comment.

2.4.2 Customer Focus Groups

This method is usually used to test a specific product/service upon a convenient sample of the customer base. The intent is to gather customer reaction to the product/service and to analyze the customer viewpoints. This can be accomplished during the group gathering by:

- Questionnaires
- Preference alternative choices
- Customer comments
- Videotape of customer's trying the product.

It should be noted that results of customer focus groups are qualitative in nature and the subjective language can be used to help understand the customers' needs and their decision-making process, but does not forecast actual demand.

2.4.3 Customer Surveys

Surveys typically involve larger numbers of customers in order to obtain a statistically significant result via:

- Mail
- Phone
- Email.

The advantage in this case is that the results lead to the tabulation of quantitative projections. However there are also disadvantages. It can be difficult to explain complex concepts, determine an unbiased survey question, and can result in a flood of data that must be analyzed. Surveys must be carefully designed to capture the data-of-interest; otherwise the effort is simply garbage in – garbage out.

Customer data can also be obtained from secondary sources such as published marketing reports and the Strategis and Statistics Canada website. Secondary sources of information can be readily had in some cases and it may be relatively inexpensive (Churchill, 1988).

2.4.4 Listening to the Customer Directly

There are a number of opportunities to engage the customer directly in conversation via:

- Trade shows
- Dealerships
- Direct sales contact
- Customer complaints
- Conduct well planned direct customer interviews.

Direct communication with the customer allows in-depth probing by the interviewer.

Personal interviews are common, and allows for face-to-face interaction. This makes it easier for the researcher to explain complex questions, and allows for the use of audiovisual aids and actual products. The researcher can spend the time learning everything possible from the customer.

However, direct interviews are expensive to conduct. The interviewer can inject bias into the interview due to tone of voice and body language. The person being interviewed may change their responses to appear in a positive manner. Thus it is important to train the interviewer carefully to be able to handle interviews properly. (Hiam & Schewe, 1992)

The above are just some of the customer learning approaches that can be utilized. The key message in this chapter is that profiling customers helps clarify perceived opportunities and broadens the horizon to discover under-satisfied customer needs. Understanding the macro environment and the market helps to direct business decisions. The entrepreneur is now in a better position to form a viable business idea (Johnson and Scholes, 2002) and to focus his attention on the competition, aggressively and with perseverance!

3 UNDERSTANDING MAXOUT'S COMPETITION

3.1 Chapter Introduction

Many new start-ups think that they don't have competitors. They state that there are no other products out there that do what we do! They perceive that their competencies are unique and no one will be able to mimic their "killer app"! The reality is that not knowing who or what makes up the competition is a sure path to failure. There is always competition.

Every idea, every product and every service has competition. This is a 100% rule with no exceptions. (Birnbaum, 2005, p. FP 11)

Therefore, assessment of competition in the market and assessment of the market for competition are critical components to the success of a new venture. Part of that assessment is determining the level and type of competition within the target industry. A new venture considering entry into a specific industry needs to ask the following questions:

- Who is the competition?
- What are their products?
- How do their products compare to our products? (This is further explored in product positioning)
- What substitutes and complements are available for the product?
- On what basis do we plan to compete?
- What is happening with new developments in technology, consumer trends and such?
- How is competition shaped by environmental factors described by the PESTEL framework, and how would business be affected?

In the ICT market, competition is based on product leadership, operational excellence and customer intimacy (Treacy & Wiersema, 1995). Moore, in *Inside the Tornado*, contends that in

the various stages of the product lifecycle various paired combinations of each base of competition take priority over others, such as the Table 3.1 illustrates.

Table 3.1 Product Lifecycle and Basis of Competition

Stage Of Product Lifecycle	Basis Of Competition
1) Early Adopters/Visionary Stage	Product Leadership Only
2) Early Majority: Niche Target	Product Leadership & Customer Intimacy
3) Early Majority: Tornado	Product Leadership & Operational Excellence
4) Early/Late Majority: Main-Street	Product Leadership & Customer Intimacy

Based on Moor, 1995, p. 175

Christiansen in *The Innovator's Dilemma* and with Raynor in *The Innovators Solution* contends that high technology products compete first on functionality, then reliability, then convenience and finally on price. Only until the preceding basis of competition is over-satisfied does the focus of competition shift to the next factor. When the market and product reach maturity, then price becomes the main focus of competition. Both sets of competitive principles are combined in the following table.

As shown in the following table, the two sets of views can be combined and utilized together for competition. By matching each section of the product adoption curve to the appropriate paired 'basis of competition', a firm can focus on the appropriate facet of competition that fits at that stage of the technology.

Table 3.2 Facets of Competition

Facets Of Competition		
Treacy & Wiersema, 1995 & Moore	Christensen & Raynor, 2003	Details
1) Product Leadership	1) Functionality	Features
		Premium Cost
2) Operational Excellence	2) Reliability	Durability
		Efficiency
		Quality
3) Staying Close To The Customer	3) Convenience	Service
		Speed
		Ease Of Use
	4) Price	Low Cost

Based on Christensen & Raynor, 2003 and Treacy & Weirsema, 1995

The basis of competition to choose will depend on the industry, current trends, technology, stage of product lifecycle, cost structure, other environmental factors and the current competition within the market, not just the product. A firm will need to understand their position with respect to the industry, market, product adoption cycle and the competition.

In the yield management area, research shows that the concept was first implemented in the airline industry over 40 years ago and has already been applied to the hotel industry (Kimes, 1989; Norman & Mayer, 1997). Informal discussions with hospitality industry staff confirm that major hotels are already using revenue and yield management software supplied by the chain or franchise.

The important messages presented in this chapter are that (1) not learning from the competition is foolish, (2) not anticipating competitive reactions can be fatal, and (3) understanding competition may turn potential competitors into customers.

However, concepts and techniques aside, it is important to remember that competition is ultimately about locking in customers and locking out competitors (Hax and Wilde II, 1999).

3.2 Learning From the Competition

It is a mistake to not learn from the competition. They are already established in the industry that the new entrant is considering moving into and they have a fully functioning business. It does not hurt to study them, as companies that fail to do so also fail to gain wisdom from the successes and failures of others that walked before them. Many firms have failed as business ventures due to simply ignoring their competition.

The point is, all these companies should have learned more about what was coming down the pike by studying the competition – really studying what worked, what didn't work, what expectations other players had developed about the market. There rarely is a reason to think life is going to be easier for a new business just because it's new. 'What would make companies smarter? Look at the examples of others and don't assume those companies make mistakes.' (Brokaw, 1991, p. 67)

Maxout can gain valuable insights by studying a potential rival like Easy Revenue Management Solutions: detailed information on the functionalities offered by their yield management software, pricing information for initial installation and monthly fee rates are available from the company's website. The information would allow Maxout to better gauge the performance/price ratio of eMaxout and, if necessary, re-evaluate its product plan and pricing strategy.

Companies like to announce new product introductions, new customers, large contracts and such. This is background information that allows the new venture to determine the types of

markets segments and customers that a particular competitor currently serves. This in turn allows for determining which customer segments are already well served and helps to uncover the segments that are under-served or completely un-served.

Most company websites include a wide range of information that can be used in competitive research. Many websites include a short history of the firm. This allows a new venture to determine the age, size and location of the competitors. The company websites may have links to stock tickers, if they are public firms, thus showing another line of investigation in finding more information on the firms' markets, profitability, strategic plans and market shares.

A quick Google search of the Web using "revenue and yield management hotel" for the search criteria turned up the following:

- Manugistics: A company that offers Revenue & Yield Management products and consulting for a wide range of industries, including hotels (<http://www.manugistics.com>).
- IdeaS: A company that offers Revenue & Yield Management software and consulting for the hospitality industry (<http://www.ideas.com/solutions/index.shtml?MNAV=sol>).
- Easy Revenue Management Solutions: This firm offers Easy Revenue Management Software directly for the hotel industry, including on their website their installation fee, monthly pricing and a listing of major customers (<http://www.easyrms.com/core.htm>).
- Vancouver Community College: The Hospitality Management degree program offers HOSP3240, a class on Revenue & Yield Management for the hotel industry (http://www.vcc.ca/programs/detailcourse.cfm?WPGM_PROGRAM_ID=178&WC2P_COURSE_ID=2507&DIVISIONID=7).

Thus it can be seen that competition exists for eMaxout, and can include direct competitors, such as Manugistics and Easy Revenue Management Solutions, and indirect competitors in the form of consultants and educational facilities that have programs teaching Revenue & Yield Management methods. Each of these competitors can educate Maxout on the industry and markets it seeks to enter. Much can be learned from their websites and links, which

can further direct research efforts to specific industry associations where more can be learned about how eMaxout may best fit, or not, the various market segments being considered.

Insights can also be gained by observing how competition in other industries is shaped and how it shakes out. If Microsoft is the MacDonaldis of the ICT industry, both offering commoditized products while tweaking for differentiation, how should Maxout plan the introduction of eMaxout? Independent gourmet coffee shops often thrive next to MacDonaldis. Why are they co-dependent? What about other value added component partners of Microsoft, are they friends or foe? As an entrepreneur of a small start-up, learning from others can always help better anticipate competitive reactions, or allow him to thrive through co-dependency, especially if the new firm is a monkey living next to a gorilla (Moore, 1999).

Therefore, before rushing into the market, it is best to discover the competitors that currently exist in the market, what segments they serve and what products they offer. At the same time by learning about the competitors it is possible to learn what they are doing, what works and what does not in that particular industry. After all, why re-invent the wheel when it is possible to learn from the competitors?

3.3 Anticipating and Planning for Competitive Reactions

When a new entrant to a particular market arrives on the scene, established competitors might consider the new venture to be beneath their notice and not a threat to their established market share. This is how IBM lost the PC battle. IBM assumed since their name was well associated with computing and technology, that their name alone would coalesce the market to their brand of PC and therefore were not concerned about competitors. Unfortunately, they did not realize that they were dealing with an entirely new market segment that took one look at IBM's prices and decided to shop elsewhere. What followed was a cut-throat competitive PC market that saw new entries come and go.

Ignoring the competitive climate of a market is relying on the kindness of the competition to not do anything to up-set grabs for market share. This is wishful thinking. Although in 2005 discontinuous innovation (Moore, 2002) is not nearly as intense as 1995, the amount of new ventures entering the ICT market, and the amount exiting, continues to be at a high level (Statistics Canada, 2005). Standing still is simply asking to be left behind. Today, IBM, the firm that spawned the mass personal computer business, has sold off the PC business due to an inability to compete. If ignoring competition can have such devastating effects for a well-established firm like IBM, imagine how unforgiving it can be for a small start-up.

A competitor can also make the new firm's entry into the market prohibitive, by simply reacting strongly to a new product launch (Hendon, 1992). The competitor can offer special discounts, rebates, bundle deals, tie up channels for distribution and such, all actions focused on preventing the new entrant's successful product launch.

Depending on who the competition is, they may not take kindly to the appearance of a new firm on the scene. Netscape unwillingly had this experience when Microsoft launched Internet Explorer.

Your Competitors aren't dumb. Smart founders knew that starting out without the benefit of experience would hurt them. They also recognized that competitors are to be respected. Because even if you'll be pushing a product or service that represents an improvement on what's out there, your competitor still has one thing you don't; a viable business. When start-ups ignore that, they turn arrogance into red ink. (Brokaw, 1991, p. 67)

We had a credibility issue of being a small company in the industry coupled with the fact that our product was a major commitment for the buyer. This put us at a disadvantage relative to our large competitors. (Zacharakis, Meyer & DeCastro, 1999, p. 11)

Change in the basis of competition affecting the core business may be caused by changes in competitor's actions, customers, new technologies and other factors. (Sommers & Koc, 1987, p. 36)

As a new entrant into a competitive industry it is necessary to consider competitor reactions to the firm's entrance, product launch, sales efforts, discounts and such, in order to be ready with a plan to implement should undesired reactions surface. For example, entering the database market, a new firm needs to be aware of Larry Ellison, CEO of Oracle. A famous quote from him regarding competition is "It is not enough that we [Oracle] win, everyone else must lose" (Chapman, 2003). Thus the new firm needs to know who the aggressive competition is in the industry and how they will view new entrants. Consider the following hypothetical scenario for example:

As part of its initiative to better serve the growing needs of the hospitality industry Microsoft has announced that a partnership with XYSoft, a well established hotel management software company from Atlanta Georgia. Microsoft will license its BizTalk and MS SQL server technologies to XYSoft for its suit of front desk and property management solutions, and in return XYSoft will develop and launch integrated office automation and hotel yield analysis desktop solutions using Microsoft Office.

In the case of Maxout learning from competitors will allow it to assess whether the above scenario is plausible. Planning for competitive reactions, if the scenario is plausible, will enable Maxout to take steps to mitigate impact on business and investment – one of which may be to actively plan and develop a harvesting strategy that include selling eMaxout to XYSoft.

Having anticipated competitive reaction, it is now time to plan and here some tools and approaches that can help.

3.3.1 Planning for Competitive Reaction

3.3.1.1 Scenario Planning

Scenario Planning is a method that is used to consider competitor reaction to a proposed plan. The main action starts a chain reaction of potential actions that are assigned probabilities and then the most likely actions are used to plan the firm's reactions to those competitive actions. The following table summarizes the process.

Table 3.3 Scenario Planning

<p>Scenarios: Plausible and detailed view of how the business environment of an organization may develop in the future based on groupings of key environmental influences and drivers of change about which there is a high level of uncertainty.</p>	
<p>Scenario Process:</p>	
Factors to Consider	<p>1) Utilize A Minimum Number Of Factors In Order To Minimize Complexity.</p> <p>2) Use Factors That:</p> <p style="padding-left: 20px;">a) Have A High Potential Impact</p> <p style="padding-left: 20px;">b) Are Uncertain.</p>
Step 1)	Identify high impact and high uncertainty factors in the environment.
Step 2)	<p>Identify different possible futures by factor:</p> <p>1) (a) Rapid Change</p> <p style="padding-left: 20px;">(b) Measured Change</p> <p>2) (a) Favourable</p> <p style="padding-left: 20px;">(b) Unfavourable</p> <p>3) (a) High and increasing</p> <p style="padding-left: 20px;">(b) Stabilizing</p> <p>4) (a) In support of issue</p> <p style="padding-left: 20px;">(b) In support of alternative</p>
Step 3)	<p>Build scenarios of plausible configurations of factors.</p> <p>Scenario 1: No great change.</p> <p>Scenario 2: Rapid Change</p> <p>Scenario 3: Radical Change</p>

Adapted from Johnson & Scholes, 2002, p. 107

3.3.1.2 Competitive Market Research Guidelines

Research on the competition, for each competitor, can be guided by the following:

- Strengths, weaknesses, opportunities and threats compared to the new firm (SWOT analysis)
- Product specifications, pricing and product positioning in the marketplace
- Market share
- Yearly revenues
- Coverage of market segments
- Geographical coverage
- Trends in the business environment that might affect the business
- How established firms are using new technology.

3.3.1.3 Competitive Data

To understand the market and the competition, data must be collected. Utilizing the sources listed in the following table, a wide range of data is available for the business to collect. The information should be organized into a spreadsheet format containing data important for the specific industry and comparing the business to the competition. Table 3.4 lists some of the types of information that would be useful.

Table 3.4 Competitor Information

Competitors	
	Name Of Competitor
	Key Product
	Market Perception Of Competitor
	Market Share
	Markets Occupied (Geographically)
Key Personnel	President/Owner
	VP Finance
	VP Marketing
	VP Sales
	VP Product Development
	Number Of Employees
Financial Data	Current Yearly Sales Revenue
	Previous Yearly Sales Revenue
	How Held? (Public Or Private)
	Shares Outstanding
	Current Share Price
	Venture Backed? (Yes/No)
	Lead Investors
	Growth Patterns
Sales, Distribution & Pricing	Primary Distribution Channels
	Primary Pricing
	Discount Schemes
	Annual Quantity Sold

Salokannel & Szeto, 2005

3.3.1.4 Competitors Assessment

Assessing competitors using a scaled approach can help map the topography of competition along value and price dimensions. Some values are real while others may be perceived. Although outside the scope of this paper competitors assessment can lead to the formulation of competitive product, pricing, distribution, and promotion tactics.

Table 3.5 Competitors Evaluation

		Competitor 1 assessment (Scale of 1 To 5)	Competitor 2 assessment (Scale of 1 To 5)
Product/Service	Easy To Use		
	Cumbersome To Use		
	Meets All Customers Needs		
	Missing Important Features		
	Difficult To Install		
	Easy To Install		
	Unattractive		
	Bulky/Awkward		
	Performance Trends		
Subjective Viewpoints	Market Acceptance		
	Merchandising		
	Packaging		
	Advertising Quality		
	Public Relations		
	Product		
	Promotion		
	Product Acceptability		
	Chances Of Future Threat?		
	Product Trade-In Value		
	Upgrades		
	Product Useful Lifecycle		
	Customer Service		
	Quality		
	Design		
On-Time Capability			
Guarantee/Warranty			

		Competitor 1 assessment (Scale of 1 To 5)	Competitor 2 assessment (Scale of 1 To 5)
	Technical Expertise		
	Technology In Use		
	Repair Service		
	After Sales Maintenance Costs		
Key Strengths (core competencies)	Sales and service		
	Operation		
	Supply chain		
	Culture		
	Others		
Key Weaknesses	Sales and service		
	Operation		
	Supply chain		
	Culture		
	Others		
Strategic alliance	Technology		
	Distribution		
	Outsourcing		
	Others		

Based on marketing assessment toolkit, Dr Colleen Collins-Dodd, 2004, SFU graduate marketing course

3.3.1.5 Additional Insights

Other insights to be gained from the competition lie in recognizing that a firm is simultaneously enabled and bounded by internal competencies. Among those competencies is the ability to anticipate competition and quickly adjust (Christensen and Raynor, 2003). Successful incumbent firms employ many differing resources to enable them to remain innovative and agile (Leonard, 1998). The entrepreneur of a small start-up can learn from the competition and this enables him to understand the topography of competition, to capitalize on niche opportunities, and to anticipate competitive reactions to protect the firm against harm.

3.4 Turning Potential Competitors into Customers

How can potential competitors be customers? Is Microsoft a competitor or a customer? Is another value added component builder of MSExcel add-ons a competitor or a customer? The answer is: It depends.

A knowledgeable revenue manager who determines that eMaxout is too limiting, overpriced and under supported may hire a hospitality management student to build him a yield management tool in MSExcel from scratch. A front office manager, in need of making his yield analysis process using MSExcel more consistent and less time consuming, and knowing that a request to purchase eMaxout for US\$2,000 will not be approved, is equally likely to hire a summer student to do the same. In both these cases MSExcel can be a competing product for Maxout.

Now consider the following hypothetical news and the reaction that it can conjure from Microsoft, or a Microsoft value added partner:

Maxout has announced that eMaxoutLight, a limited version of its flagship hotel yield analysis product eMaxout, has been approved by the Ministry of Education as the designated learning tool for hospitality students in all secondary and post secondary institutes. This has boosted the sale of eMaxoutLight to revenue levels above that of eMaxout and has resulted in Maxout announcing that its book is in the black for the first time since its start up 18 months ago. It is also anticipated that the relationship with academia will also significantly boost the modelling capability, and the ICT architectural robustness of future releases of eMaxout, which will improve the product's interoperability in Web service centric platforms.

The above hypothetical scenario speaks to (1) the longer-term viability of eMaxout as a product, (2) the strategic competencies of Maxout as a firm, and (3) the rich and inexpensive resources that are available in the firm's environment. Combined with our conjecture in Chapter 2 that Microsoft is a "product + 1" main street firm, it is not inconceivable that Maxout would receive a call from the product manager of MSExcel.

Is it so bad to start in the late majority market? Perhaps not. It is certainly an area that incumbents may not be interested in because of the low margins offered. As Maxout grows critical internal competencies and matures eMaxout, it is not inconceivable that customers in the early majority section of the technology adoption lifecycle will find eMaxout attractive in the areas of superior modelling capabilities and improved interoperability (Christensen and Raynor, 2002). In this case partnering up with a ubiquitous gorilla such as Microsoft can be rewarding.

Having established who the firm's customers are, and having identified and learned from competitors, it is now time to move on to positioning the product to compete.

4 ESTABLISHING MAXOUT'S PRODUCT POSITION

4.1 Chapter Introduction

To be sure, revenue, in and of itself, is the lifeblood of your company, but strategy is concerned with the future implications of a sale, not its immediate ones. (Moore, 1999, p. 164)

I always skate to where the puck is going to be, not where the puck is going. (Gretzky, before 2005)

Positioning is the key to strategy. It has been said that if people want to go where they need to go, they should just close their eyes and walk fearlessly in a straight line; but if they need to be where they should be, they should open their eyes and look at where they should be going next.

By utilizing competitive research and analysis, the firm has the basis for making the decisions that will guide its competitive strategy options with respect to product positioning. Johnson and Scholes mention 5 types of strategy used for competitive purposes. The first is basic "no frills" strategy that seeks to combine low price and low perceived value to focus on a very price sensitive segment of the market. This segment of the market is willing to accept a less feature rich product but will do so only at a low price. This segment will not pay the premium for a better-quality product. The problem here is that the firm must accept slim margins of profitability.

The second strategy is "low price". This method seeks to provide a lower priced product or service, while also trying to maintain similar value as offered by the competition. However, this can lead to price wars and the firm must have costs well under control.

Another option is a "differentiated" strategy that seeks to offer products or services that are unique and different from the competition with respect to those attributes most valued by the

customer. This method also seeks to achieve a higher market share by offering better products at the same prices as the competition. This can be accomplished by improvements to current products, effective demonstration that the new firm's products meet the customer's needs better, or utilization of core business competencies applied to solving the customer's problems.

The "Hybrid" strategy tries to achieve both differentiation and lower price at the same time. Success depends on the ability to understand and deliver enhanced value to meet customer needs, while also managing efficiencies to reach and maintain low price. But this strategy must be sufficient to still allow for the development and maintenance of differentiation. R&D can be very expensive.

"Focused differentiation" tries to offer a high-perceived value that will justify a premium price. This is usually to a specific market segment that is willing to pay the premium price for custom effort. Many new high technology businesses start with a focused strategy.

Knowing the competition, their products, pricing, customer segments, geographic coverage, etc.... will assist the firm in deciding which competitive strategy will best suit their needs to compete successfully. For example, knowing the current geographic coverage of competitors, it is then possible to decide which geographic markets to enter, especially if it is possible to identify geographic markets that are currently not being served.

4.2 Understanding Positioning

Positioning is what you do to the mind, not what you do to the product or service – that not only aimed at a particular market segment but was also designed to achieve a desired 'position' in the minds of the prospects. (Hendon, 1992, p. 113)

Product positioning is about understanding what problems customers are trying to solve and impressing upon them the perception that the firm's product is the solution they need. In this sense product positioning is about the "job" that the product is being "hired" to do (Christensen and Raynor, 2003). The reason that some people choose to buy a milkshake from a fast food

restaurant for breakfast over a bagel is because they believe that they can conveniently drink-and-drive but not eat-and-drive. Thus in the same way, the academic director of a college hospitality program would “hire” eMaxout to “teach” his students about yield management because of its convenience.

How about the property owner of a hotel needing to “hire” eMaxout to “audit” the revenue practice of the management firm’s operation? What about a legal firm that wants to “hire” eMaxout because it has accepted a case to sue a management firm? The client believes that the management firm has caused damage to his investment position in the interest of boosting the management firm’s brand.

Product positioning requires insights into fulfilling the most significant need for a group of similar customers (market segment), and making sure that the firm’s product is perceived as the preferred choice for fulfilling that need. The product position can be succinctly summed up in a statement of the following form:

For...who are dissatisfied with...our product is...that provides... Unlike...we have assembled (or we provide)... (following Moore 2001, p.154)

4.2.1 Positioning Statement Breakdown

Positioning requires a well thought out statement that must be applicable and appealing to the specific target customers. Below we take the positioning statement, as based on Moore’s work, section by section and explain the importance of each portion.

4.2.1.1 Target Market

This is the “For” part at the start of the statement. This identifies the actual target market the firm is seeking to address. Precision counts, as being vague will simply cause potential customers to tune out and miss what the firm is trying to tell them. Let them know that the statement is addressing them directly.

4.2.1.2 Customers' Problems And/Or Unmet Needs

The “who are dissatisfied with” portion brings up the problem of the unmet needs of the customer who is willing to listen further to a firm that is aware of their problem and is sympathetic. However, the problem must be clearly identified and displayed in plain language that the target market will understand. As Moore says “Customers will not buy something until they know who is going to use it and for what purpose.”

4.2.1.3 What It Is

“Our product is” defines the market and thereby identifies direct and indirect competitors and classifies the product for the customer. It clearly states what the product is and/or does for the customer.

4.2.1.4 Features / Benefits Offered

“That offers” specifies the important features and/or benefits that will appeal to the customer. It is not necessary to get into much detail. This portion is to simply state that the firm has a solution for their problem or unmet needs.

4.2.1.5 Unique From The Competition

“Unlike” states how the firm’s product is different/unique from the competition. What makes this product better?

4.2.1.6 Total Product Concept

The product or service is an offering that should completely address all the concerns of the customer. Creating a product that only partly answers the customer’s problem or unmet needs will not sell, especially if there is an alternative that does address the entire problem. Thus the firm’s product must meet the “Total Product Concept”.

In the case of eMaxout as a value added MSExcels add-on that is targeting value conscious customers, the positioning statement might read something like this:

For managers of smaller hotel firms **who are dissatisfied with** the time wasted in manually carrying out yield analysis **eMaxout** is an MSExcels yield management tool **that provides** an effective and quick “what if” yield analysis. **Unlike** other yield management products **we provide** a low-cost, reliable product with online help through Microsoft’s support web site and call in help desk.

Make the positioning statement clear and precise. Do not confuse the customer or the target market.

The challenge is to find a positioning that is powerful, credible, tenable and appropriate. (Clancy & Shulman, 1991, p. 87)

4.3 Meeting Customers’ (Market Segment) Requirements

It is amazing the number of firms that simply build a product because it is technically feasible, but never bother to see if it fits the needs of the customer. This is unfortunate since many firms end up with the following:

No real benefit delivered. If your target market doesn’t perceive (and actually receive) important benefits, you won’t succeed. If you are committed follower of positioning, you won’t think this is an important mistake, but it did turn up again and again in the literature on new product and service failures and in my consulting. (Hendon, 1992, p. 117)

Of new product efforts, 60% never even reach the market. Of the 40% that do, 40% of them fail and are withdrawn from the market. This adds up to about 75% of product development efforts being wasted on products that never meet the needs of the customer (Clancy & Shulman, 1991). Sometimes this may be due to “poor quality” (Hendon, 1992). Other times it is simply never meeting the customers requirements, ability/willingness to pay a premium price, or the product is so complex customers are not willing to work through the steep learning curve to discover how to use it.

In this case, market research into understanding the market and customers is only the start. It is necessary to understand how the firm's products fit the market and the customer's needs, in contrast to the competitor's offerings. Understanding of the customer/market reaction will allow the firm to pre-position their product within the mind-set of that customer/market. Failing to do so, allows customers and competitors to decide the product's position. Unfortunately, this may not be the most advantageous view of the product that the firm would otherwise advocate.

It is therefore necessary to spend time to determine how the firm would like customers to react to their product by making it clear how that product will address their needs along one or more of the following dimensions:

- Better quality
- Faster
- More convenient
- Less costly
- Better solution to their problem.

Comparing the product against those of the competition concerning features, functionality, reliability, price, service and other pertinent critical aspects that pertain to the customer and market enables the firm to present a unique value proposition to the customer. The value proposition that differentiates the firm's product to the disadvantage of the competition will win customers. In the case of eMaxout the questions to ask may be the following:

- Is the customer looking for better yield modelling capability, and if so what level of modelling performance does eMaxout has to provide?
- Is the customer just looking to save time doing what-if yield analysis to verify pricing decisions made using other means?
- Is forward and backward system integration and interoperability an important consideration for the customer?

The following sections describe positioning tools and methods that can help discover answers to these and other questions.

4.4 Positioning Methods

Positioning also has other tools and methods that can be employed:

- Focus groups: Refer to section 2.4.2
- Perceptual maps/ Strategy Canvas: These methods compare the perceived location of each competitor on all relevant dimensions into a visual map. Focus groups may be used to help identify the relevant dimensions and then surveys can be used to capture customers' evaluations of the firm and its competitors. We will explore an example of the Strategy Canvas in section 4.5.
- Problem detection: This is a method used to determine the problem that the customer encounters, the frequency of occurrence and the irritation level. Then this information is compared to how well the various competing products meet and satisfy the problem need.
- Gap analysis: This method asks survey respondents to identify not only what dimensions and features are important to them, but also how satisfied they are with the performance of competitors on these dimensions. Then the analysis seeks to find what gaps exist where markets are underserved on important dimensions. This shows where the firm can focus on potential opportunities.
- Choice Modelling: Surveys are used to estimate the degree to which various features contribute to the choice of a competing product. This can identify the minimum level of features to have and pin points features that are considered most important.

Each method has pluses and minuses. They must be clearly understood in order to avoid making a decision based on flawed research. Focus Groups are typically too small to be a stable statistical sample. Thus, results are volatile and different for the same issue between different groups. In a Focus Group the dominant voice can sway the group to one viewpoint. Also, the Focus Group's monitor's bias, ability, skills, and such, can prejudice the results. Therefore, it is necessary to understand any tool that the firm chooses to use. (Clancy & Shulman, 1991)

4.5 Strategy Canvas

The Strategy Canvas is a simple and easy to use tool that allows focus and quickly shows divergence when comparing products or services. The Y-axis represents high/low, strong/weak or any other appropriate pair of attributes against which all others are compared. Along the X-axis are listed the various attributes being compared, segmenting the space into vertical columns. Then the appropriate products are placed upon the canvas in the appropriate positions as rated. Once all attributes are compared, then a line is drawn to connect them all (Kim & Mauborgne, 2002).

Customer ratings of the firm's product versus the competition's can be done individually, or in a group. Individual ratings can be useful, since each individual may have a blind spot with respect to one particular attribute. As the example on the next page shows, the upper management of the firm thought their product was the best in the market. However when mapped out on a Strategy Canvas (Before) and compared to the competition, an entire new picture became evident. The firm realized that they needed to make improvements and the second Strategy Canvas (After) shows the results.

Figure 4.1 Strategy Canvas Before

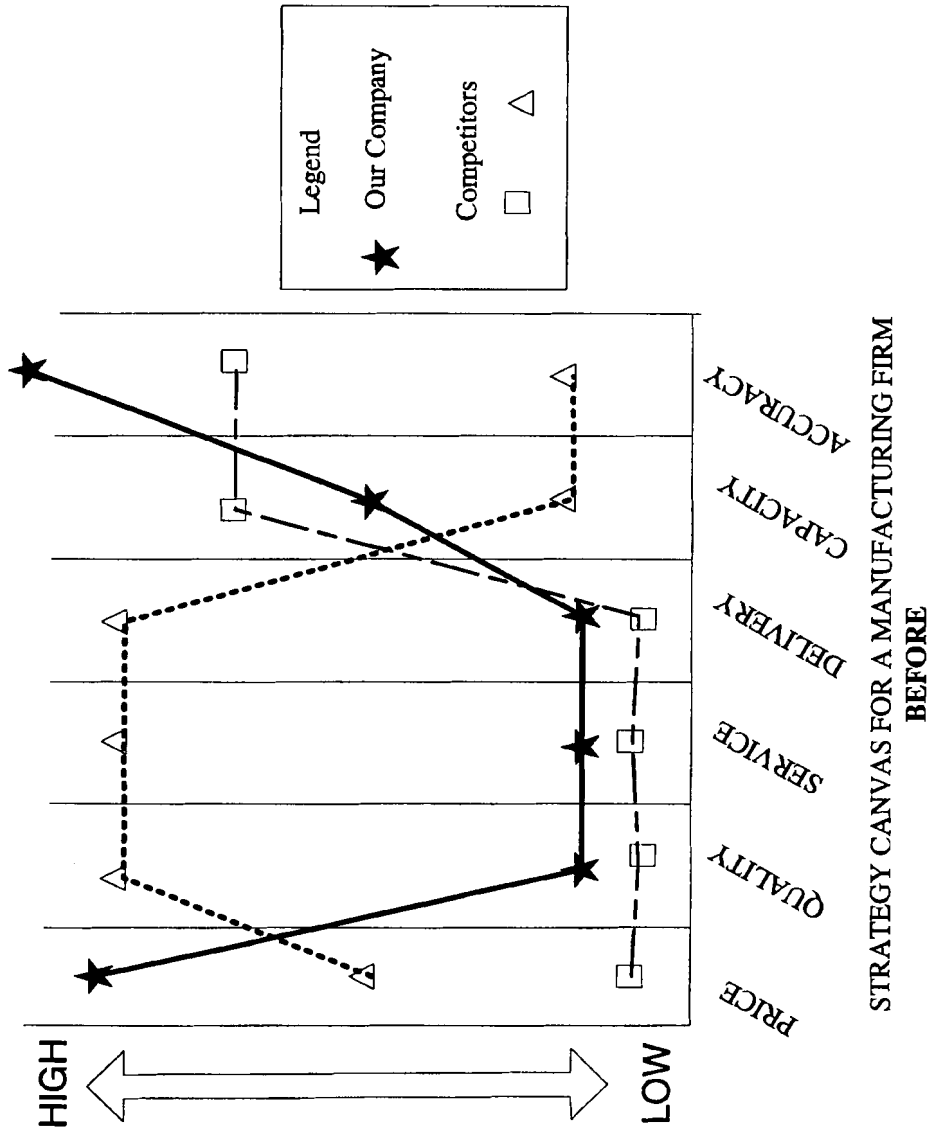
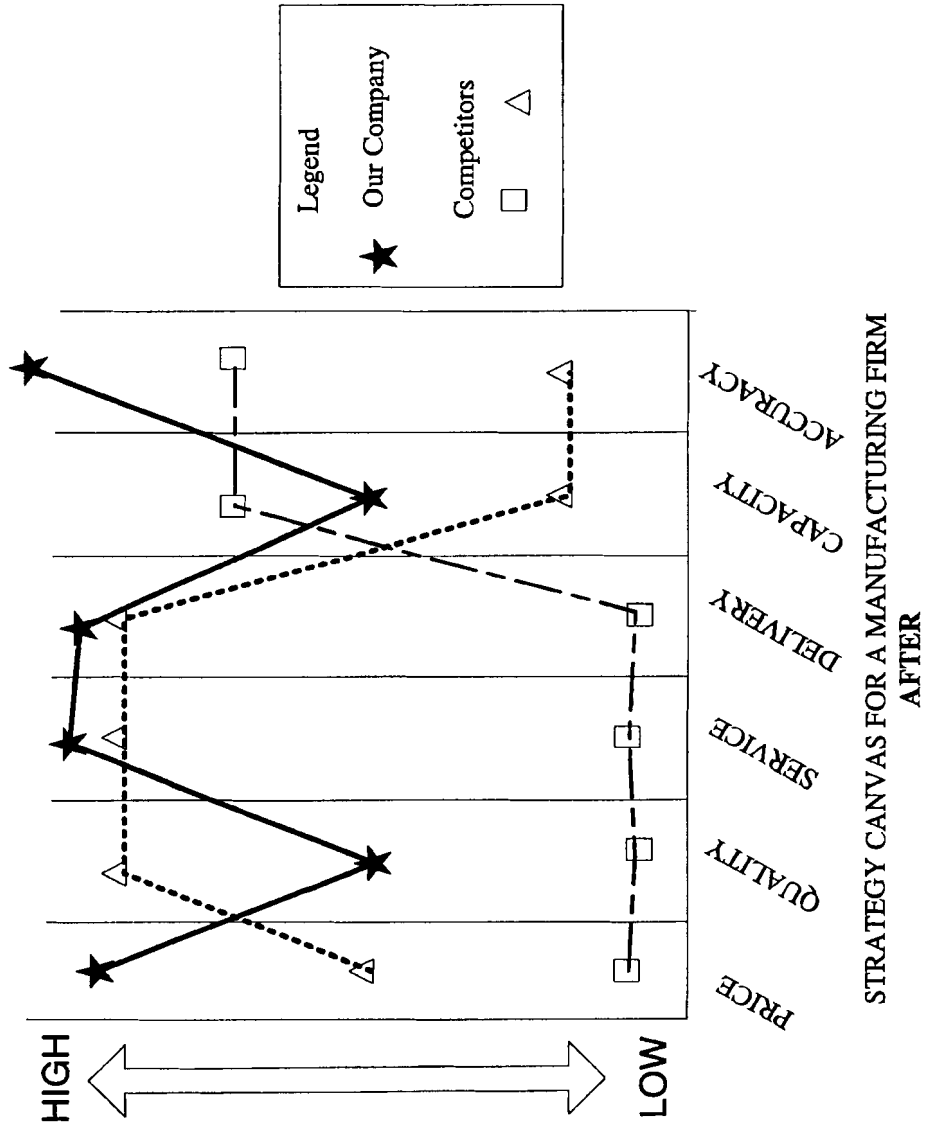


Figure 4.2 Strategy Canvas After



As can be seen from the two Strategy Canvases, the firm actually had a quality, service and delivery problem, which they managed to improve. However, they are still the highest priced product when compared to their competitors. Thus the Strategy Canvas can reveal how the firm's product rates when compared across a number of attributes with competing products. Furthermore, one should be aware when competitors improve their products and how this would effectively alter the Strategy Canvas. Remember, the business environment is dynamic and always changing.

For Maxout the attributes listed can also be used from the sample Strategy Canvas. Service would apply to prompt replies to inquiries regarding the product. Delivery could mean ease of access and fast and uninterrupted downloads from their website. Capacity can be correlated to the maximum size of hotel that the product can address, including the amount of data stored within the product. Accuracy correlates to the mathematical modelling used within the product to maximize the revenue yield for the customer. Quality can encompass the customer's entire experience in dealing with Maxout and in using the eMaxout product. Maxout can use the Strategy Canvas to compare their product to their competitors.

4.6 Know Your Competitors, Their Products and Build a Unique, Desirable Position

Use the research to determine what positions the firm and its competitors currently fit in the mind of the customer.

- Write a well crafted positioning statement
- Keep using the positioning statement in all advertising with the company name, not just the product name
- Understand customer needs and values
- Understand the competitive environment
- Know the target market

- Stay aware of trends and new technology.

For eMaxout the unique desirable position is one that differentiates it from all competitors in a targeted market segment whose customers perceive eMaxout as having the superior value proposition.

4.7 Tag Lines

Given that optimal positioning has been determined, it is time to punch up that positioning with a tag line. The following are examples of tag lines:

“We try harder.” Avis car rentals (Clancy & Shulman, 1991, p. 86)

“Now we are trying even harder.” Avis after an employee buy-out (Clancy & Shulman, 1991, p. 86)

“Never leave home without it.” American Express Credit Card

“Ford Tough.” Ford trucks.

So, what is the firm trying to tell their customer/market about their product? Is one of the following a tag line for eMaxout?

“We allow you to max out your yield!”

“Yield management made easy!”

“We give you better yield than others!”

“MSExcel in yield management with eMaxout!”

5 CONCLUSION

It is difficult to launch a new software product. It is even more difficult for a small software business start-up. The market and competitor research exercise can be as extensive or as brief as necessary but, when beginning a new business with a new product, research and understanding the business environment in this case takes on even greater importance, because failure can be a very personal experience for the founders.

Market and competitor research can reveal viable options for creating success with the new product and new venture; strategic planning based on the research can reveal the optimum strategic choices that will enable founders to realize their goals.

The research we conducted has proven that not doing market research leads to product and venture failure. This includes launching products and ventures for solving nonexistent or unimportant problems (Hendon, 1992) and lacking understanding for the resource allocation mechanism of customers (Solovic, 2004; Christensen, 2004). The latter leads to lack of understanding on how purchase decisions are made by different market segments for a specific industry.

Much of the art of marketing focuses on segmentation: identifying groups of customers that are similar enough that the same product or service will appeal to all of them. (Christensen and Raynor, 2003, p. 74)

Sound market segmentation, backed by solid venture and product strategies, can address the following questions with a developmental view:

- What products will customers want to buy?
- Who are the best customers for our product?
- What is our unique selling proposition to those customers?

Answers to the questions above will lead to discovering answers for the questions below:

- What should be the scope of our business?
- How can we beat our competitors?
- Is the organization capable of market penetration and market development?

Indications are that yield management has growth potential in the hotel industry, but how can Maxout gain market access? Which segments should Maxout focus on for their product positioning strategy? How do they get the needed investment capital? This must be supported by a robust marketing strategy and a visionary business plan. The business plan forms the basis for decisions on who to target as customers, how to sell to them, who to hire, where to locate, what kind of organization culture should it have, etc. etc. If money is the issue, then there is an even more urgent need to have a vision that investors find compelling enough to invest in.

Marketing research is a major building block for Maxout's business plan. A solid business strategy built on sound marketing research will be needed to attract partners and investors. This is important to help the Maxout founders to succeed in their business.

This paper generates more questions than it answers. The objectives are to identify key strategic marketing decisions that are relevant to eMaxout such as target markets, product positioning, and the research with respect to environment, customers and competitors that are required to make those decisions. This information will make it possible for the founders of Maxout to put together a blue print to help guide the firm in determining "What do we do next?"

APPENDICES

Appendix A – Marketing Assessment Framework

The following marketing assessment framework is adopted from class materials in a graduate marketing course taught by Dr Colleen Collins-Dodd of Simon Fraser University.

Sources of Market Information

Table 6.1 Market Research Sources

The Competition	Sales Personnel At Tradeshows
	Product Specification Sheets
	Sales Literature
	Annual Report
	Press Releases
	Competitors Local Town Newspaper
	Competitors Websites
Industry Associations	Association Newsletters
	Association Website
Industry Trade Journals	Published Industry Papers
Government Websites (US And Canadian)	Strategis Website
Customers	
Industry Experts	
Investment Analysts	
Industry Suppliers	
University Research In The Field	
Internet Search	
Patent Search (Can Be Done On-Line)	
Public Competitor Annual Reports	

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Market Data

Table 6.2 Market Data

Markets	Market Segments (Customer types)
	Size
	Growth forecasts
	Profitability
	Local/National Geographical Markets
	International Geographic Markets
	Product Adoption stage
	Market Positioning
Customer Demographics	Job Titles (For technical product decision makers)
	Viewpoint
	Emotional influences
	Practical influences
	Education level
	Limitations
	Age
	Income ranges
	Sex
	Family type (Married/Single)
	Geographic location (Urban, sub-urban, country, and such)
	Attitudes
	Perceptions
Economic Trends	Growth
	Prices
Emerging Technology Trends	Technology research trends
	New Technology Availability
	New Technology Costs
Social/Political	Politics
	Regulation

Based on marketing assessment toolkit, Dr Colleen Collins-Dodd, 2004, SFU graduate marketing course

Competitor Data

Table 6.3 Competitor Information

Competitors	Name Of Competitor
	Key Product
	Market Perception Of Competitor
	Market Share
	Markets Occupied (Geographically)
	Performance Trends
	Size
Key Personnel	President/CEO/Owner
	VP Finance
	VP Marketing
	VP Sales
	VP Product Development
	Number Of Employees
Financial Data	Current Yearly Sales Revenue
	Previous Yearly Sales Revenue
	How Held? (Public Or Private)
	Shares Outstanding
	Current Share Price
	Venture Backed? (Yes/No)
	Lead Investors
	Growth Patterns
Sales, Distribution & Pricing	Primary Distribution Channels
	Primary Pricing
	Discount Schemes
	Annual Quantity Sold
	Organization/Size
	Training
	Motivation
	Team Support
	Relationship Quality
	Effectiveness
Key Strengths	Core Competencies
Strategic Alliances	Partners
	Joint Ventures
	Associations
	Alliances
Key Weaknesses	

Salokannel & Szeto, 2005

Competitor Assessment

Table 6.4 Competitor Evaluation

	Assessment Of Competitor (Scale Of 1 To 5)
Product/Service	Easy To Use
	Cumbersome To Use
	Meets All Customers Needs
	Missing Important Features
	Difficult To Install
	Easy To Install
	Unattractive
	Bulky/Awkward
Subjective Viewpoints	Market Acceptance
	Merchandising
	Packaging
	Advertising Quality
	Public Relations
	Product
	Promotion
	Product Acceptability
	Chances Of Future Threat?
	Product Trade-In Value
	Upgrades
	Product Useful Lifecycle
	Customer Service
	Quality
	Design
	On-Time Capability
	Guarantee/Warranty
	Technical Expertise
	Technology In Use
	Repair Service
After Sales Maintenance Costs	

Salokannel & Szeto, 2005

New Venture Product Evaluation

Table 6.5 Production Evaluation

<p>Product/Service Description</p>	
<p>Positioning Statement</p> <p style="text-align: right;">For: Who Are Dissatisfied With: Our Product Is: That Provides: Unlike: We Provide:</p>	
<p>Business Model</p>	
<p>Technology Uncertainties</p>	
<p>Market Uncertainties</p> <p>Changes In Buyer Knowledge</p> <p>Changes In Buyer Behaviour Required</p> <p>Market Externalities</p> <p>Innovation Characteristics: Degree Of Continuity/Discontinuity</p>	

Based on marketing assessment toolkit, Dr Colleen Collins-Dodd, 2004, SFU graduate marketing course

Customer Analysis

Table 6.6 Customer Analysis To Be Performed By Market Segment

Size	# Of Customers
	Potential Sales \$
	Possible Penetration
	Lifetime Value
Usage Characteristics	How Much, When, For What Purpose
Relationship Issues/Potential	
Key Benefits Sought	What Do They Need Done?
Purchase Motivations	Why Would They Buy?
Product Involvement/Risk	
Adoption Issues:	Relative Advantage
	Complexity
	Complementarity
	Observable
	Risks
	Trial/Demo
Adopter Category	Early Adopter
	Visionary
	Early Majority
	Late Majority
	Laggard
Purchasing Decision Process	Who Decides
	Need Recognition (When, Where, How)
	Information Search (What, Where, When, How, Why, How Much)
Product Evaluation	Beliefs About Product Benefits/Costs
	Value/Important Of Benefits/Costs
	Price Sensitivity
Product Choice	Purchase Situation
Post Purchase	Satisfaction
	Post Purchase Activities
	Repeat Purchase
	Loyalty
Demographics	Industry
	Company Size, Age
	Locations
	Technologies
	Social/Cultural
	Values/Life-Style

Based on marketing assessment toolkit, Dr Colleen Collins-Dodd, 2004, SFU graduate marketing course

Market Research Source Check

Table 6.7 Market Research Sources Examined

Characteristics	Sources Examined
Industry Conditions	
Customers In General	
Customer Needs	
Customer Behaviour	
Customer Motivations	
Customer Decision Process	
Benefit Evaluations	
Concept Tests	
Prototype Tests	
Competitor Positions	
Competitor Actions	
Market Forecasts	

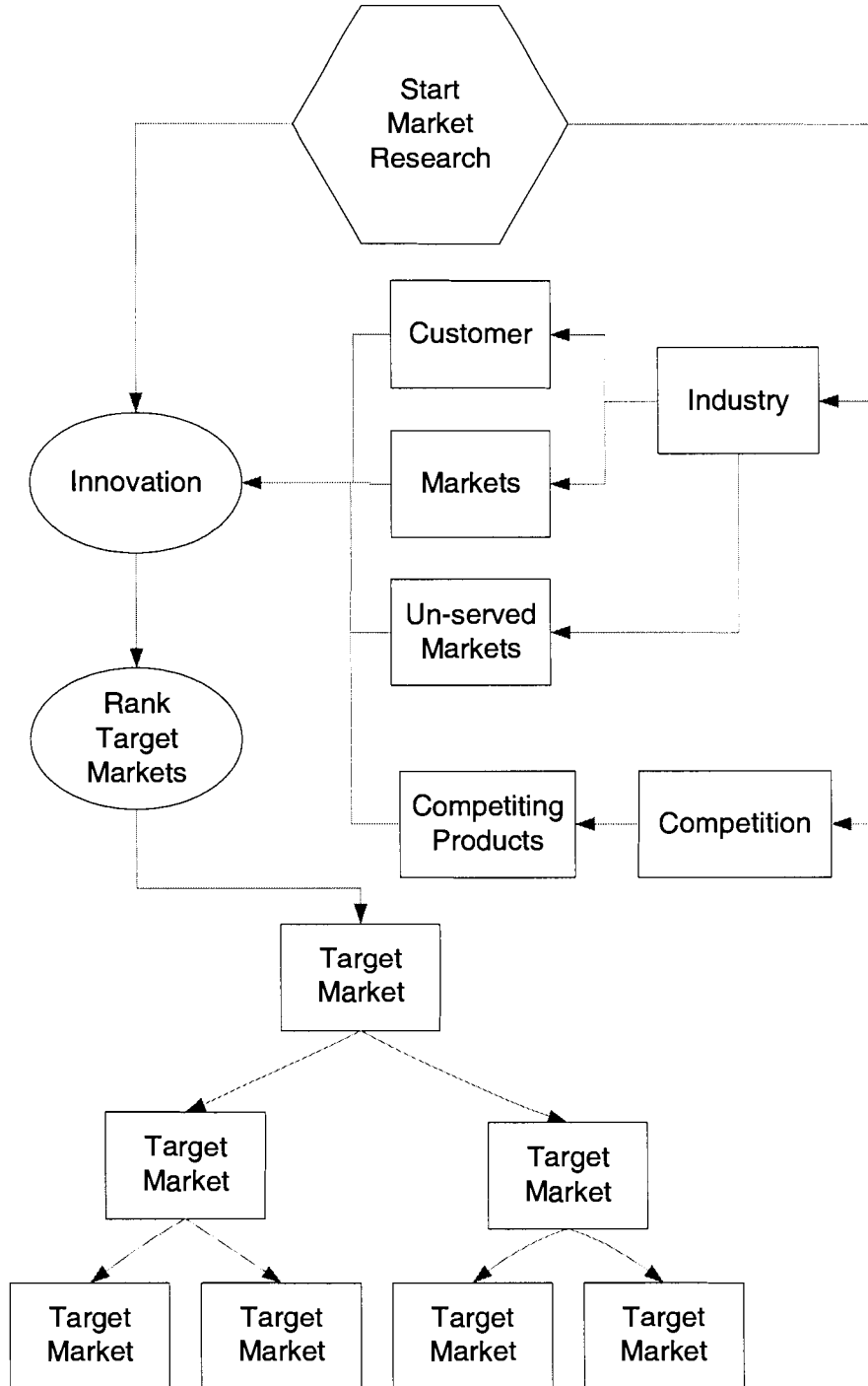
Based on marketing assessment toolkit, Dr Colleen Collins-Dodd, 2004, SFU graduate marketing course

Appendix B – Guidelines for A Start-Up

The following is a basic process and when combined with the methods and techniques discussed in this paper will allow a firm to learn how they may fit their intended market/industry. Refer to Figure 2.1 and Table 2.1 regarding the business environment (Macro-Environment and PESTEL).

1. Conduct market research on:
 - a. Market segments
 - b. Industry
 - c. Customers
 - d. Competitors
 - e. Competitive Products
2. Examine the firm's product/service offering in light of this research
 - a. How does the firm's product/service compare to the competition?
 - b. What features are lacking?
 - c. What features are needed?
 - d. Can the firm find a customer/market that can do without all the features?
 - e. Can the firm price to the market profitably, after taking into consideration distribution costs and distributor margins?
3. Does the product solve the customer's problem?
4. Can the firm line up potential target markets to identify the first target market?
 - a. Does the first target market allow follow up to take on the next target market easily?
 - b. Does the firm know at which target market the established firms will become threatened?
5. Is the firm ready to handle potential competitor reaction?
6. Focus all efforts on target market number one. Then move on to the next target market, and so on.
7. Maintain and update your research regularly.

Figure 6.1 Market Research Flowchart



After Moore, 2002

Appendix C: eMaxout vs EzRMS

Table 6.8 eMaxout Vs Ezrms Product Characteristic Comparison

Product Characteristic	Maxout	Ezrms
Type	MSExcel Macro-Loaded Spreadsheet	Stand-Alone Software Package
Internet ASP Service	No	Yes
Rental Fee	Yes	Yes
Add-On Modules	No	Yes
Automated Links To Sales And Distribution Channels: Reservation Systems And Online Hotel Room Portals	No	Yes
Data Entry	Manual	Automated
Extracted Data		
Historical Demand	Yes	Yes
Rates	No	Yes
Inventory Stats	Partial	Yes
Current Demand/Trends	Yes	Yes
Characteristics Of Property	No	Yes
Historical Occupancy	Yes	No
Historical Booking Patterns	Yes	Yes
Historical Cancellation Patterns	No	Yes
Revenues	Yes	Yes
Historical No-Shows, Walk-In's And Denials	No	Yes
Historical And Future Inventories	No	Yes
Pricing Structure (Rate Grid)	No	Yes
Current Bookings	Yes	Yes
Length Of Stay Information	No	Yes
Guest Per Room Information	No	Yes
Day Of Week Information	Yes	Yes
Market Segment Information	No	Yes
Special Events	Yes	Yes

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Table 6.9 eMaxout Vs Ezrms Product Capability Comparison

Characteristic	Maxout	EzRMS
Demand Modelling		
Pattern	No	Yes
Trend	Yes	Yes
Characteristics	No	Yes
Specifics	No	Yes
Demand Forecasting		
Trend line	Yes	Yes
Forecast For Future Demand	No	Yes
Forecast For Cancellations	No	Yes
Forecast For No-Shows	No	Yes
History Based Forecast	No	Yes
Booking Pattern Based Forecast	No	Yes
Revenue Optimization	Yes	Yes
Pricing Decision	Yes	Yes
Capacity Constraint	Yes	Yes
Forecast Of Demand By Length Of Stay And Guests Per Room	No	Yes
Forecast Of Materialization And Cancellation Of Current Bookings	No	Yes
Estimated Room Revenues, Extra Revenues By Length Of Stay And Guests Per Room	No	Yes
Acceptance: Last Room Availability, Minimum And Maximum Limit Constraints	No	Yes
Controls And Recommendations		
Calculate Expected Revenue Growth	No	Yes
Decision Priority	No	Yes
Translate/Convert To:		
Property Management System	No	Yes
Central Reservation System	No	Yes
Global Distribution System	No	Yes
Internet Distribution System	No	Yes

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