

The Dot.Com Meltdown

By Jerry W. Thomas

So what have we learned from the 500-billion-to-one-trillion-dollar dot.com meltdown? Not to mention the billions squandered on speculative telecommunications ventures, nor the billions wasted on other technologies in search of a market, any market.

Okay, we've learned (again) that we cannot trust Wall Street; they will sell us anything we are crazy enough to buy. Okay, we've learned not to trust the media; they will shamelessly fan the speculative flames to sell magazines and airtime. Okay, we've learned that you should not give millions of dollars and free reign to teenagers and college students. Okay, we've learned that diversification is a good investment strategy. Okay, we've learned that arrogance is a prescription for disaster, and we've learned that ignorance is frequently arrogance's faithful companion. Okay, we've learned that quick (Internet time) decisions are not as good as the "right" decisions (that might have taken a few weeks longer). But, what else did we learn? Are we doomed forever to suffer the pangs of our self-delusional, speculative bubbles and misguided business ventures?

How many of the dot.com business ventures were based on solid marketing research? The answer: virtually none. How many of the high-profile telecommunications ventures were based on sound marketing research? The answer: very few. How many of the other high-tech ventures did their homework and conducted the basic marketing research necessary to accurately evaluate the market potential for their ventures? The answer: very few. How many of these companies used marketing research to refine their business concepts and tweak their processes after the new ventures were launched? The answer: very few. Would good research have prevented all losses and

saved these ventures? No, of course not. But, it would have stopped the launches of many of these ventures, and it would have dramatically reduced the number of failures among those that did go to market. The one-trillion-dollar meltdown is a perverse, reverse tribute to the value of marketing research.

So what is marketing research? It is the use of the scientific method to help solve business problems. Marketing research includes experiments, surveys, product tests, new product concept tests, advertising tests, promotion tests, motivational research, strategy research, customer satisfaction monitoring, and many other techniques. What types of research are most valuable, and when should you consider research?

It depends, of course, but here are some general rules:

Strategy research is critical.

What's the grand scheme? Where are you going? What's the optimal target market for your business concept? What is the optimum strategic positioning for your concept? How will you differentiate your concept from competitive businesses? What's the best product line for your concept? What's the best set of product features or capabilities? What is your pricing strategy? How will you mute competitive counterattack? Answers to these fundamental questions are essential to the long-term success of any business venture.

Product testing is the single most important research you'll ever do.

Everyone tends to think their own inventions and their own products are wonderful, much better than those of competitors. Rarely is this self-aggrandizement assumption true. If you are not regularly and systematically testing your products and services among your users, you don't know if your products are any good or not. It doesn't matter if your

products appeal to you or your wife. What's important is how they appeal to your customers.

It doesn't matter if your cell phone is a delight to your engineers.

What matters is how the average woman on the street interacts with your phone. Most of the time your customers will not tell you that your products are inferior. People are too polite, too concerned about hurting your feelings. When you develop new products, test them among potential users to make sure they are good. You can even use product testing as a technique to monitor the quality of your products over time, and track the threat posed by competitive products. Product testing among your target audience is a never-ending quest for continuous improvement. This is how the great companies do it.

Advertising pretesting is extremely important.

Much media advertising is wasted because the advertising is simply not effective. Advertising directors, marketing directors, and advertising agencies tend to fall in love with their creative "offspring," and are very resistant to subjecting their "delicate art" to the crucible of consumer opinion. This is one of the greatest mistakes high-technology companies make: the failure to test their advertising. At the peak of the dot.com craziness, advertising agencies were standing in line to help the dot.com startups increase their "burn rate" with high-profile (Super Bowl) advertising of dubious merit. Advertising is simply too important to trust creative decisions to one's advertising agency or to the penchants of a few executives. The only reliable jury is the consumers who make up the target audience for your product.

Operations research is a very important type of research within all businesses, and I don't mean "operations research" in the classical sense (which can be important, too), but research that evaluates and improves service levels and service processes, as perceived by your customers.

What are key elements of perceived "service"? How can perceived service be improved? How can you recruit better employees? How can you retain your best employees? How should your employees treat your customers? These and similar questions can all be answered by "marketing research" methods. Operations are absolutely critical to

success in most companies, especially if a company's services are intertwined with the product itself—as is often the case with high-tech companies. A great product accompanied by poor support delivered by surly employees does not a brand franchise build.

Sales analysis.

Not one in a hundred companies does a good job of analyzing its own sales data. What is per capita consumption of your product by state or by country? What are your sales by channel of distribution, by state? What are the trends in your sales over the past three years, by channel of distribution? Who's buying your product, and who is not? What economic indices tend to correlate to your sales data? Can you identify "leading indicators" among the published economic indices that might help you anticipate business conditions in your industry? Sales research is relatively inexpensive and extremely valuable. It's a pity that more sales research is not done.

And there are many other types of research that might be valuable, depending upon your company's needs, such as awareness and attitude surveys, brand image surveys, advertising tracking, promotion testing, media-mix evaluation, new products research, marketing optimization research, customer loyalty evaluation, and so on.

When should you do marketing research? Research should have a purpose, a reason. Do research to help you make decisions. Do research when you can't afford to be wrong. Do research when the risks are great. Do research when the opportunities are big. Do research when you must convince your management or your employees. Do research, however, only when benefits exceed the costs of research. Don't spend \$20,000 researching a \$10,000 decision.

For whatever reason, let's assume you've decided your company might benefit from some marketing research. How do you go about choosing a research company? You might start the process by calling companies in your area that do a lot of marketing research (large packaged-goods companies, advertising agencies) and ask for recommendations. Call others in your industry for suggestions. Then, talk to the candidate companies to

determine “chemistry” and fit to your needs. What should you avoid? What are the danger signals when evaluating research firms?

Magic techniques.

Exotic approaches. Revolutionary technology. Let them experiment on your competitors. Rule One: If you don't understand it, don't buy it.

Guaranteed solutions.

They know they can solve your problem. They are absolutely certain they are right. They are in possession of the Holy Grail. Let them bring salvation and ultimate truth to your competitors. Rule Two: Don't do business with prophets or other types of management consultants.

Price variance.

If the prices quoted for research are extremely high, you should be wary and careful (even if they are management consultants). Make sure you are getting extra value for the extra price. Equally risky are the companies that quote extremely low prices; be especially careful in using these companies. Never, never choose a research company just because its prices are the lowest. Typically, research costs are a small part of a project's budget. Don't save \$2,000 or \$3,000 on a research project, and run the risk of making wrong decisions that could cost your company millions of dollars.

So, you've chosen a research partner. How do you get the most from the research company you chose?

Build a relationship.

Involve the research company in your business. Generally, the more you work with one company, the better the job that company will do for you.

Set forth clear objectives.

Tell the research company what decisions you wish to make. Be sure the research firm understands your objectives.

Look in on the research while it is in process.

Listen to some of the telephone interviews. Observe the focus groups or depth interviews.

Once a study is completed and you've reviewed a draft of the report and its recommendations, ask the research company to present the results of the study to all of your key people in one room, at one time. This is an absolutely essential step for two reasons: first, most of your employees don't read research reports; second, even if they do read them, many people don't understand research reports. A live presentation with all the key decision makers in one room allows the researcher to explain the results, answer all questions, and clear up any confusion or misunderstandings. A great added benefit of a presentation is that it helps your key executives reach a consensus on what the research results mean and what actions need to be taken.

Research is not the answer to every question, but if used wisely, it just might help your business avoid the next speculative meltdown. The future belongs to the informed, to the rational, to those who make decisions based on objective, research-based realities.

About the Author

Jerry W. Thomas is the President/CEO of Decision Analyst. The author may be reached by email at jthomas@decisionanalyst.com or by phone at **1-800-262-5974** or **1-817-640-6166**.

Decision Analyst is a global marketing research and analytical consulting firm. The company specializes in advertising testing, strategy research, new products research, and advanced modeling for marketing-decision optimization.



604 Avenue H East ■ Arlington, TX 76011-3100, USA
1.817.640.6166 or 1.800. ANALYSIS ■ www.decisionanalyst.com