



**TAPPING INTO  
THE UNDERVALUED AND UNDERAPPRECIATED  
NEW BUSINESS MARKET**

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**OVERVIEW:**

There are two ways to increase your revenue and profit – **sell more to current customers** and **find new ones**. Today most companies are focused on retaining and growing the current customer base in this current downturn, as finding new customers is much harder and more expensive to do than ever before.

In general I agree, as any decay of current business is not likely to be made up by finding new customers. We all know the statistics on the value and ease of keeping current customers. This has never been truer than in 2009, and will be so well into 2010.

On the other hand, there is one large market segment where finding new customers is not only easier, but also potentially creates long term value – it's the new business market segment. The problem is that our views of these new business start-ups is somewhat jaded – out of work people (often calling themselves consultants), too small, don't have any money, and will go out of business soon. So why bother? Yes, some of the new businesses fit this description, but also vast majorities do not!

From a **B2B perspective** there are always a few firms that grow large and prosper – how would you liked to have been in early with Microsoft, Google or Cisco? My guess is that those companies who paid attention and sold to these companies when they were small and unknown created a relationship that lasted and generated significant revenue and profit – what we call lifetime value.

Even from a **B2C perspective**, starting a new business is a significant event, and if we believe in life change marketing (events that “trigger” a life or behavior change) then opportunities exist to sell this “new consumer” products and services that were not needed before. Insurance, legal advice, daycare, financial services, and others may be now needed due to the significant lifestyle change that “being your own boss” brings.

This white paper will explore the new business market segment, present the facts, and explode some myths. In addition, the second section will provide some direct marketing campaign planning strategies and tactics to not only connect with these businesses and people, but also demonstrate how this can be profitable for you today and in the future!



**SOME FACTS ABOUT THE NEW BUSINESS MARKET:**

To paraphrase Joe Friday from the TV show Dragnet – “just give me the facts ma’am” Since there are so many assumptions and misperceptions about the new business market the following facts are intended to provide an accurate picture. They are drawn from a variety of sources including The Small Business Administration, Business Week, The Kauffman Survey, Crosslists, Dun & Bradstreet, Small Business Administration and numerous articles searched on both Google and Bing.

**The distribution of companies by size in the US**

One of the interesting misperceptions marketers have of the business market is the size distribution. Few business marketers actually have a clear view of the distribution of business by size in the US. The following chart of the approximately 15 million firms was drawn from D&B’s online data resource of all US businesses as counted by employee size. Employee size is used rather than revenue since it is more widely known and more honestly reported.

<u>Company Size by Employees</u>	<u>Number of Firms</u>	<u>% o firms</u>
20,000 +	908	<0.01
15,000 – 20,000	372	<0.01
10,000 – 15,000	706	<0.01
5,000 – 10,000	2,065	0.01
2,500 – 5,000	3,827	0.02
1,000 – 2,500	10,378	0.07
500 – 1,000	17,249	0.12
250 – 500	33,010	0.2
100 – 250	96,963	0.6
50 – 100	186,119	1.2
25 – 50	358,082	2.4
10 – 25	1,041,520	7.0
5 – 10	1,689,028	11.3
2 – 5	6,713,801	44.9
1	4,106,906	27.5
Unknown*	<u>691,166</u>	<u>4.7</u>
Total:	14,952,100	100.0

\*Some firms do not have employee size attached to the record

As clearly can be seen by this breakdown; almost 97% of businesses are under 25 employees and almost one-half are between 2 - 5 employees. In fact, this D&B data may under report small business, as the Small Business Administration reports that are nearly 30 million small businesses in the US – an open debate. Regardless of the debate, there is no question that it’s a large and growing market.



### **The Number of New Business Started Each Year:**

Counts from Crosslists (a leading and long-time compiler of new business incorporations based in Bates City, MO) shows that on average there are between **180,000 – 200,000 new businesses started each month**. That's right – well over 2 million new businesses are begun each year.

Obviously this number is not constant, as many factors impact just how many are started each month. Yet, as we have endured these economically difficult times the last two years, a larger portion of these new businesses are being started by experienced people who either have decided to leave their positions or have been a victim of layoffs, closings and/or mergers. Therefore, a significant number are starting businesses with great experience, contacts and financial resources.

As an example of this trend, the Aug. 31, 2009 issue of Business Week, in an article titled *The Case for Optimism* told the story of Mary Pruitt.

*Some people don't need any prodding to take chances. They're pioneers who brave arrows while the rest of us wait back at camp. Take Mary Pruitt, the 56-year-old and a lifelong Kansan. She was laid off in 2006 from a project management job at Agilent Technologies. Soon after, an inventor she knew asked her to co-found a company to commercialize his idea for cutting emissions of cancer-causing particulates from diesel engines. Pruitt was so impressed by the early test results that over the past two years she put the entire \$300,000 or so from her severance payment and 401 (k) into the Pomona, Kansas startup, which they called Emission Control Solutions. "If I had not been laid off, I would absolutely not have gone forward on this" Pruitt reported.*

While Kansas is not normally thought to be a hot-bed of startup companies, Silicon Valley is. Things have not slowed down here either in spite of some reports, as the following excerpt from the same Business Week article documents.

*For months, Saeed Amidi has heard all the talk of doom and gloom in Silicon Valley. Layoffs are on the rise, venture capital investments are plunging, and tech startups are closing their doors. But Amidi doesn't see that pessimism in his own business, a Valley-based incubator called Plug and Play Tech Center. "People are really excited about starting new companies," say Amidi, co-founder and chief executive of the center. In June alone, some 30 startups moved in, bringing the total to more than 220 companies that have collectively raised more than \$700 million in funding since Plug and Play began in 2006.*



As these two stories clearly point out, new businesses are not some individual who has nothing better to do, and decides to start some type of home-based business. There are serious people starting up significant activities, and are in need of all kinds of products and services as they grow and prosper.

### **The Franchise Movement**

Frequently, the “new business” is not so new, as franchising companies have also capitalized on these new entrepreneurs. In a September 14 issue of USA Today, the story of Melissa and Andre Carter opening a CiCi’s Pizza buffet restaurant in San Diego was detailed. Not only has the opening been successful, but they employ close to 30 people in the restaurant. Many other franchises are available to individuals wanting to start businesses even though financing may be difficult.

### **Some Facts and Insights about New Businesses:**

There is much reported about the new and small business segment, as over time statistics indicate that not only are most new jobs created by these companies (an often quoted statistic is 70%), but great economic output is produced as well. On the other hand, many misperceptions and unfounded opinions exist about these startups as well. So what’s the truth? Here are a variety of facts and insights drawn from an array of sources including the Small Business Administration and their sponsored working paper, *Startup Business Characteristics and Dynamics: A Data Analysis of the Kauffman Firm Survey*.

- Small business employ a little more than half of all private sector workers, pay 44% of total U.S. private payroll and have generated 64% of net new jobs over the past 15 years, according to the SBA’s Office of Advocacy.
- Over 93% of all startups were new, independent businesses; about 7% were purchased or are franchises. Obviously franchised and purchased firms have a higher level of assets, profits, revenues and wages than newly created firms.
- About half of the startups are home based, another 40% operate their business at rented or leased facilities, and the remaining has purchased their own offices/plants.



- The overall survival rate after one year was 94% (much higher than popular opinions have led us to believe), but that varies based on the type of businesses. From a high of 97% for rental and leasing firms to a low of 89% for accommodation and food service businesses.
- Business failures do occur over time, but also long standing business fail as is evidenced by the empty store fronts in all of our local communities.
- The statistics for new business failure are hard to accurately determine, but the widely accepted rate is 50% will fail in 5 years.
- In 2006 for home-based business the four largest types of business (based on the two-digit NAICS code) were:
  - 31% professional services
  - 13% manufacturing
  - 10% construction
  - 10% administrative services
- Non-home based business showed a somewhat different split by type
  - 23% manufacturing
  - 17% professional services
  - 14% retail trade
  - 6% professional services
- Non-home based startup businesses created an average of 5.5 jobs per firm that averaged 4.1 paid employees in addition to 1.4 entrepreneurial positions. Clearly, larger in size than new home-based businesses.
- In one year after starting, 41% of firms that have survived added employees. In addition, businesses with multiple owners had a higher rate of growth than with those with single owners.
- C corporations, S corporations and LLC's had higher growth rates than sole proprietors. Of the startups 33% are sole proprietors, and of the firms that went out of business 40% were sole proprietors.

There is more fact and figures, but hopefully some or all of the preceding information will provide a different picture of the market size and opportunity available from startup firms.



## **PLANNING A MARKETING COMMUNICATION PROGRAM**

If you are now interested in this large market opportunity, one of the first logical questions is how do we plan and execute a well targeted marketing campaign to these new businesses? Good question, as developing a successful marketing campaign to startup firms is not the same as marketing to established companies, and must be executed well to achieve a positive pay-back.

Here is a list of considerations when planning a marketing campaign directed at startup firms and their owners.

- **Buying Process**

All buying processes are a combination of both rationale and emotional assessments and feelings. In classic B2B situations, the rationale decision making is based on an assessment of how the product and/or service being considered will help the business succeed. While that is true, those marketers who forget the emotional side of the decision process are missing a key input to the purchase.

On the consumer side, most marketers feel that most decisions are based on the emotional side of the buying equation. Also, while true, those who forget to satisfy the “rationale consumer” will likewise lose sales.

The small business owner is a classic combination of both a business person (rationale) and consumer (emotional) when making buying decisions, as most if not all decisions have great impact in both sides of their lives. Don't forget when planning marketing communications that most likely the purchase is made with their money and therefore personal risk.

Another opportunity in selling startup businesses is that they are likely looking to purchase products and services for the first time. When selling to established companies, we frequently have to displace the current product or service. This is more difficult than selling to an unmet need, and in general new business startups are in this situation. Therefore, the buying process is different as well.

- **Targeting and Segmentation**

One of the very first things to do when developing a targeted marketing campaign is to properly target and segment the market. Good segmentation leads to both relevant communications and reduced cost as well. It has been proven that the higher the degree of relevancy of the message and offer, the more interesting and engagement with the individual and as a result higher response rates as well.



For the moment, let's assume that the broad target market is new business startups, and therefore the next step is to segment this audience into sub-segments. With new businesses, several logical opportunities exist and they are:

- Geographic based on zip code or area code.
- Home based vs. leased or owned office/plant. This can be determined by referencing the residential delivery indicator from the post office. This indicator identifies an address as either a residential or business address.
- Type of business formation – C or S Corporation, LLC, partnership, etc.
- Gender of owner based on name matching to master gender file.
- Length of time in business – new startups become small businesses over time, and represent another market segment as their needs change.

While these segmentation opportunities are not as rich as established businesses (no SIC or NAICS code is fully available), they do provide several opportunities to segment. As an example, in the earlier facts, it was noted that C, S or LLC company formations had a higher survival and growth rate than other types of business formations. Therefore, it would be logical to invest more marketing dollars in this group vs. sole proprietorships, as the long-term payoff would likely be greater.

- **List Acquisition:**

Once the segmentation strategy has been determined, then finding a list that matches the criteria set is the next step. There are a variety of list compilers including firms such as D&B, InfoUSA, and AccuData. While these firms compile business data on all US based firms, they do not specialize in new business startups as compiling this data is a specialized process. That's why firms like Crosslists are called upon by experienced marketers for new business data.

One question that might arise when looking at the number of small companies (defined here as firms with fewer than 5 employees) in the D&B file is the low number of small businesses in their database. There are 10.8 million firms in the D&B database, and this represents all firms no matter how long in business. One would think that with over 2 million starting each year there would be more.



The reason is the compiling method and focus by D&B and other B2B data compilers. While these B2B compilers do record some new business startups, they are more focused on existing and larger firms. That's why a specialist, such as Crosslists, is the best source for data and lists for new businesses.

- **Offer Strategies:**

The second most important decision to make in a targeted direct marketing campaign is what is the offer to invite or even compel response? Only when a new business owner is enticed to respond with an interesting offer will the buying/selling process begin. This, of course, depends on what is being sold.

Here are some guidelines for offer development.

- At the beginning of the buying process offers that are more personal in nature do work well with small businesses since the owner is part consumer and business person. So premiums (books, gift cards, desk accessories, etc) will encourage response. This works well for more complex decisions where a series of steps are in the buying process as what is desired is a start of the communication and not a purchase.
- On the other hand, if the product or service is a commodity, and the action desired is a direct purchase, then some of the more traditional direct marketing offers are best. Limited time, quantity and of course price offers will drive a "one-contact" sale. This is particularly true if your brand is well known (e.g. Staples), and if not then some type of credibility building offer may be needed.
- "Information of value" offers always generate high interest and response rates. What do I mean by this? White papers, webinars, reports, independent reviews, case studies, and other forms of valuable information are great offers. They can be used as the initial offer as well as lead nurturing communications. Remember, new businesses are hungry for information and knowledge that will help them survive and prosper.

If you decide this offer type is a good choice, then be careful as if the "information" is only about you and your product and service the reaction of the business owner will not be positive. Provide real and valuable information, and if you can afford it, have some independent expert providing the information. Clearly, the subject should be related to the problem your product or service solves, but do not make it a thinly veiled sales brochure.



- **Media of Contact:**

There are only two media of contact available to communicate to new business startups – mail and phone. Email addresses are not easily available, and even if they were it is not recommended at the start of a selling relationship without an opt-in. The most cost effective is, of course, mail as the cost per contact is lower.

On the other hand, if the value of your sale (initial or long-term) is high, phoning first might prove even more cost effective. These businesses are new and likely not on the radar screen, and therefore not yet hit with many marketing communications. As in all direct marketing campaigns, testing of which contact media pays off the best is advised.

During the initial communications the gathering of email addresses is an important activity, but remember that sending only emails is not necessarily good marketing as multi-touch, multi-media campaigns always produce the highest total response and conversion rate.

- **Creative:**

Just a few words about creative, and specifically copy as direct marketing is typically copy led. The key thing to keep in mind is who you are talking to and their personal and business situation. They are starting a new business and while they may well be experienced in the corporate world, this is a “new life” for them. Showing empathy without talking down to them is clearly the best copy approach. Also, don’t talk to them in corporate speak, but rather use “straight-talk” as they will react to this approach with appreciation. Remember that several focus groups and studies have shown that small business people do not like to be called “small business”, so find another way to describe their situation.

It is also strongly advised to hire an experienced B2B direct response copywriter – if you can find one. They are worth every penny they charge. Not everyone can write copy that compels a response and this is certainly true of advertising copywriters. No disrespect intended, but it is true!

- **Testing and Measurement:**

There are books on testing and measurement, and no self-respecting direct marketer does not test and measure. When embarking on a campaign targeted at new business startups this discipline is probably even more critical assuming this is a new market for you.



Here are a few pointers:

1. Test what is important to campaign success. Most common are list, offer, media of contact and creative. For this audience, the offer and media of contact are probably the two most logical elements to test. Remember, you need 30-50 responses to predict future repeatability with a 95% confidence.
2. Calculate breakeven before executing the campaign. Breakeven is the calculation of how many sales must be made to pay for the campaign. Assuming that there is also a cost to the product or service being sold, then use the gross margin generated to determine how many sales must be achieved to breakeven or pay for all the variable campaign costs. If the conversion rate is too high then find savings in the campaign execution until the breakeven rate is realistic. On the other hand, if you only need to make one sale out of 1000 to breakeven, then invest more money in the campaign as this will certainly pay off.
3. Finally, calculate both the initial transaction breakeven and also lifetime value. Many a B2B marketer only calculates the initial sales and forgets to consider the lifetime value of the customer. Pragmatic B2B marketers only use a 3-year lifetime so that the value is not overstated.

#### **TO SUM UP:**

If you are looking for new customers, the new business startup market might represent an opportunity that before now has been untapped and under valued. This market is probably larger and more substantial than initially perceived. Certainly, a well designed direct marketing campaign should be developed and tested to prove the potential for your product or service. But, if it works, there will be a constant flow of new opportunities as the rate of new business startups is high and growing. Take advantage of it now, before your competitors do!

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### **The Sales & Marketing Institute**

SMI is a consulting, publication and training firm based in Scottsdale, AZ. The firm specializes in the integration of sales and marketing to create a “new sales coverage model” that is directed at dramatically improving sales and marketing productivity. In addition, the firm focuses on the B2B lead process and the integration of sales and marketing that this demands. SMI offers consulting services, public seminars and internal training on a wide array of topics. Later in 2009 SMI will ***The Fundamentals of B2B Database & Direct Marketing*** online training program. To obtain a brochure on the training or download other white papers, visit [www.b2bmarketing.com](http://www.b2bmarketing.com)