



## Insights

Research and the Value Proposition

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## Research and the Value Proposition

Let's drop everything and sell the new idea!

Red Splash understands that business start-ups are exciting. Every day represents a new set of problems and issues to resolve. You may have a new idea which you are keen to develop and commercialise, but lack of opportunity is seldom a major problem for smaller businesses. There are many more ideas than there are successful product or service launches. More often, the question is one of maintaining focus – keeping the resources of the business concentrated where they will do most good.

Many small businesses seem to enjoy the process of reinventing themselves periodically by changing their product and service offering – they remain optimistic that “this time it will all come right”.

However, if they don't look at why their last product or service offering was less successful than they expected, it is very unlikely that the current hot idea will prove any better. These businesses need to learn from their experience and be single-minded about allocating their resources.

Resources could be cash, time or people but it needn't be limited to these – it could be access to a raw material or manufacturing capacity. The word “resources” is deliberately drawn widely. Whatever is in short supply and in high demand within the business would qualify.

### Test the idea before you do anything

Testing the attractiveness of your idea before doing anything sounds self-evident but many ideas are launched without significant testing and often because of that lead to either a loss of funds or even more damagingly a loss of the opportunity the new product or service could have delivered into the business if it had been positioned or re-engineered to fit market needs . There are a number of levels to testing:

- no testing at all, just the intuition of the creator of the idea
- testing limited to friends and family
- research with potential customers
- research with potential sales and distribution channels

That isn't to say that research will always produce a sensible answer. Very often tests ask the wrong questions, often because the offer hasn't been fully thought through so the questions to the group of people being tested haven't been properly developed.

A good example of this is the research that was conducted by Sony into the Walkman, one of the best selling personal electronic categories during the 1990s. Sony was wise enough to realise that the initial research was defective and re-designed it quickly to test whether their assumptions were correct.

Sony's initial research into the Walkman concluded that the product would never sell. Potential consumers were asked whether they would ever buy a tape player which didn't have a record facility. The answer was a resounding no. The research was asking questions related to the features of the product idea.

When later research asked questions related to the benefits which the idea might bring about – a lightweight player of taped music which could be worn while walking or jogging – the response from potential consumers was significantly more positive. Market response was huge and Sony reaped the benefits for several years.

Research let down Coke too. You may remember that a few years ago Coke introduced New Coke after very careful, and secretive, market testing.

New Coke was a response to the steady erosion of Coke's market share by Pepsi over a number of years, supported by TV advertising which showed that in blind taste tests, consumers really did prefer Pepsi.

In response, Coke developed an alternative recipe which outperformed Pepsi in blind tasting and launched New Coke on an unsuspecting market. This was close to a marketing disaster.

The key problem was that Coke had been telling the world for years that "Coke is the real thing" and overnight they attempted to say "We didn't mean that at all, we have another product to launch". Eventually New Coke was allowed to disappear and Classic Coke became Coke again.

Amazingly, consumers now viewed "Coke is the real thing" with a sense of nostalgia. Blind taste tests or no, Pepsi was holed below the waterline and their market share fell steadily.

**No testing at all:** If giant companies like Sony and Coke can get it wrong then how can a small business expect research to give useful answers? Doesn't it make more sense to work with the inventor's intuition? Small businesses can learn from others' mistakes in planning their research. Intuition can deliver high levels of creativity which bring about entirely new products, service and business models. It can also deliver the Sinclair C5 (the ill-fated battery-powered tricycle).

**Testing limited to friends and family:** People around you can be helpful and they are certainly the nearest when you need to quickly ask for a knee-jerk reaction. They are usually available at no cost, but analysis of their responses can be lengthy (“why did they say that?”). Their major disadvantage as a research source is that they are very close to you - are you certain that they can give you impartial feedback?

**Testing potential customers:** This sounds expensive, but it is rarely as expensive as getting it wrong. Customer testing can be high cost if it is carried out on statistically valid samples using formal statistical analysis. The reality is that commercial truths can emerge at much smaller sample sizes - focus groups can provide excellent insights into the attractiveness of a new product or service. It all depends on what you want the research to tell you. If it is simply a test of the attractiveness of the product or service then a focus group may well be an appropriate solution. If you need to create a formal model to correctly scale your manufacturing, service and distribution then get your statisticians lined up now.

**Testing potential sales and distribution channels:** Once again, this sounds expensive – but the quality of the information can be invaluable in terms of understanding pricing and positioning against alternative products. This kind of testing has plenty to offer software developers, manufacturers and service providers.

Red Splash believes that research is important to the success of most activities and that the question is not whether you can afford it, but how much can you afford? The budget will determine the kind of research you undertake and that will impact on the statistical validity of the findings. Don't let those things hold you back. Research is nearly always a good idea, providing you have done some homework first to make sure that you are asking the right questions of the right group of people and that takes us to ... the Value Proposition.

### What's a Value Proposition?

A new product or service solves a problem that isn't being dealt with very efficiently in the current environment. Consumers or businesses are paying money to avoid the problem or the effects of the problem. If you can make an educated guess about the amount of money that a business is investing in avoidance or mitigation activities then you have put a price on the problem and you have taken your first step in understanding how you can price your product or service to your potential customer.

Data quality in large customer databases is a problem which incurs numerous costs. The business response is in square brackets:

- mail can be sent to the wrong address [response – send it to all known addresses and wait for the customer to modify the data]
- expensive brochures sent to the wrong address or the wrong audience [increase the size of the print run]
- promotional material can be sent to existing customers [ignore the cost of reputational risk]
- rework required in editing and correcting data in the database [increase the resource working with the data]

The problem for a new tool which seeks to improve data quality is that most companies don't analyse the cost impact of the existing level of data quality, so the first step for the salesman is not to sell the idea of a new widget to solve the data quality problem but to help the target businesses understand the real cost implications of their current data quality.

Only when an organisation understands those costs in more detail can our salesperson start selling the widget-based solution designed to improve data quality.

So understanding the value proposition of the idea, the product or service is the starting point and the research is the validation tool which will provide commercial insights which will help to launch the idea successfully.