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The Freemium Business Model and Viral Product Management

Expand Your Comfort Zone: A Product Management Quiz to Point You in the Right Direction

Marketing Up (and Down and Across) in a Down Economy

The Pragmatic Marketer™

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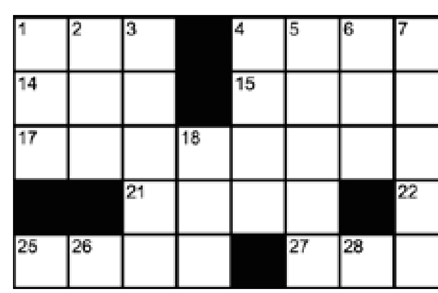
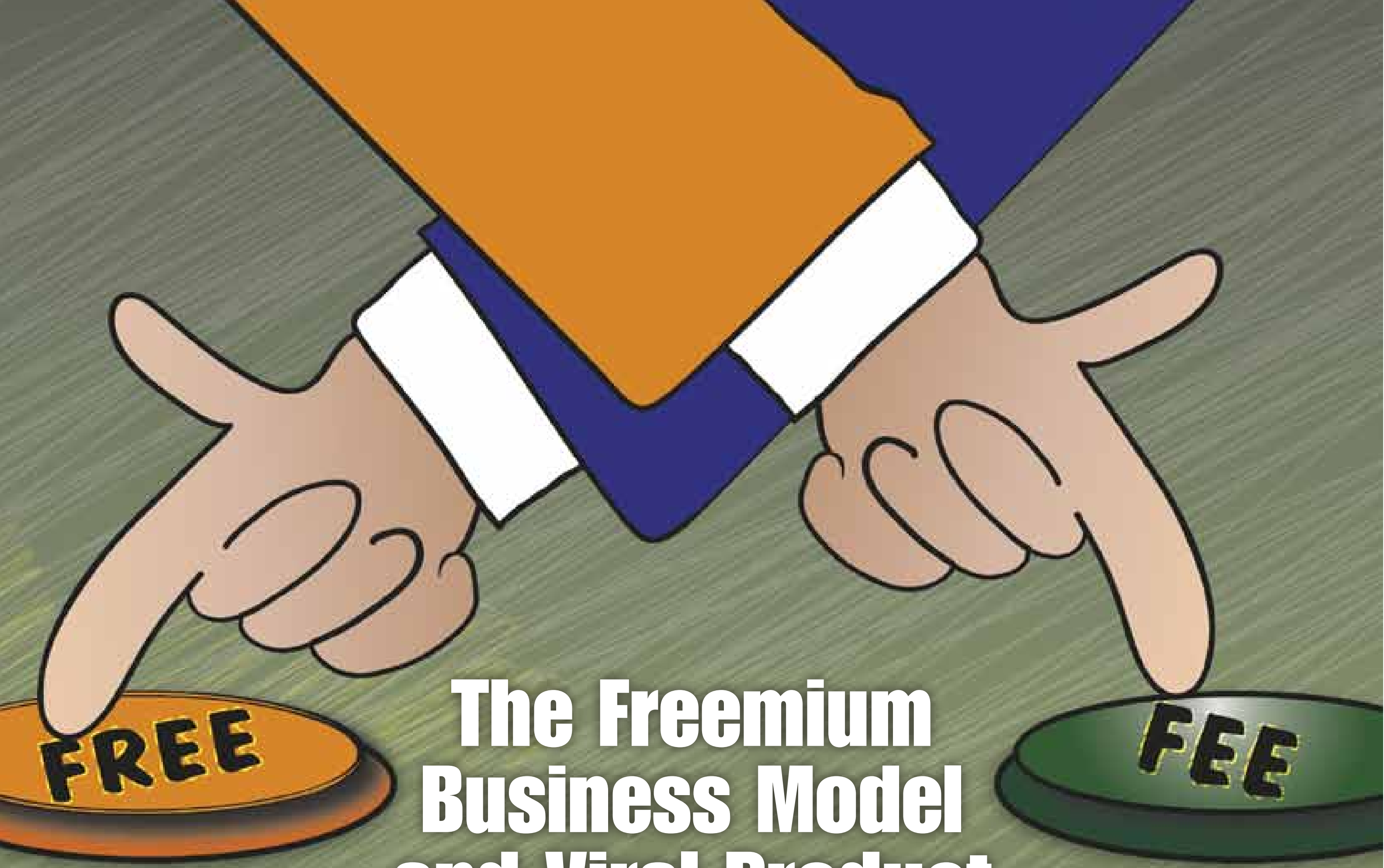




The Freemium Business Model and Viral Product Management

By Scott Sehlhorst

Ever scratch your head and wonder why you can use your favorite application for free? How can a business actually make money (and stay in business) when they offer their product for free? When does it make sense for a company to offer a free version of a product that competes with their own for-a-fee version of the same product? The freemium model is one where the company offers two (or more) versions of a product. The basic version is free to use. You have to pay for the premium version.

Once you do create both free and for-a-fee versions of a product (here the word "product" also means services and combinations of products and services), how do you approach positioning and pricing of the products so that your company stays in business? Do you encourage viral growth, and what is it about a product that makes it inherently viral?

Economics of a freemium business model

One way to look at the freemium business model is to consider the choices each user makes. By definition, a freemium model is where one user is faced with a choice: Do I use it for free, or do I use it for-a-fee?

We will discuss how to encourage users to move from the free version to the for-a-fee version later. For now, we'll just look at the impact of that choice.

Billing Peter to pay for Paul (freemium)

Every free user gets some benefits at no cost. Every for-a-fee user pays to get the full benefits of the product. The customers who pay for your product also cover the costs you incur when providing it for free to other users.

As a company, look at your aggregate user base to analyze the economics. What makes this analysis meaningful is asking the question, "What percentage of your users will pay when a free version is available?" Basecamp, from 37signals recently celebrated its fifth anniversary and serves as a good example. Note that 37signals expressly does not share this "conversion rate" information (the percentage of *free* users who are converted into *for-a-fee* customers), so we have to speculate.

In a 2006 interview with Ryan Carson for ThinkVitamin, Jason Fried, co-founder and president of 37signals, indicated that their conversion rate was "more than 0.87%." So we'll call that 1%.

In a 2009 interview with Brad Spirrison for MidwestBusiness.com, Fried indicated that 90% of revenue for 37signals comes from subscriptions to web applications. Spirrison points out that 37signals earns $40,000 monthly from its job board, so we'll estimate $360,000 per month from subscriptions.

We can sanity-check our 1% estimate. Fees for 37signals for-a-fee products range from $24 to $149 per month. If the average customer pays $36 per month, then there would be 10,000 paying customers—1% of a million. We could tweak the numbers (the average might be lower; there may be more than a million users, etc.); but this data is consistent with a 1% conversion rate.

Blogger Jed Christiansen did an analysis about a year ago where he estimated about $5,000,000 per year in 37signals revenues—numbers that are consistent with the Spirrison interview. Jed built his estimates from the usage stats that 37signals reported, along with some assumptions for converting from usage to number-of-users. His estimates would put conversion somewhere around 0.5% to 1%. He provides a spreadsheet of the model too, if you want to tinker with it.

This feels reasonable—100 free users for every paying user. Even if that number is wrong, the rest of this article holds true, but it sometimes helps to have a number to think about.

The left hand doesn't know what the right hand is paying (not freemium)

There are other ways to "pay for" providing a free product, but *freemium* only applies to the situation where two versions of the same product are offered *to the same users*—one for free and one for a fee. The following describes a perfectly valid way to do this—just don't mistakenly label it as freemium.

This left-hand/right-hand situation is where a user gets a product for free and a *different* user gets a *different* product for a fee. Technically, this is not a freemium model; the same user does not choose between the two options.

The following are examples of this model:

- A company offers a product for free to (primary) users and charges advertisers (secondary users) to display ads to the primary users. This is an ad-supported business model.
- A conference offers the opportunity to speak/present (for free) to lecturers and charges attendees to listen to the lectures.
- A government offers waivers on corporate or property taxes to a company to build a new facility and levees payroll taxes against the employees for the privilege of working there.
- A shopping mall hosts free events (such as holiday pageants) for the general public and charges the retailers for rental space in the mall. These events make the mall a more attractive location for retailers, leading to higher rent or occupancy or both.

In each of these scenarios, the users who get the free product are not choosing it relative to the paid product. Different users are targeted for each. ➔

Quick cost-model refresher

From a management accounting standpoint, there are two types of costs that make up total costs for a given product:

- **Fixed costs**. These costs are the same for the company, no matter how many users there are; additional users add no incremental costs.
- **Variable costs**. These costs are the same per marginal user—incremental users add incremental costs.

Total costs is the sum of fixed and variable costs.

There are also two important ways to look at profitability: overall and per-product sale:

- **Total profit** is the sum of all product sales minus the total costs to make and sell the product, including overhead.
- **Contribution margin** is the difference between product revenue and the variable costs to make and sell the product.

When the total revenue from product sales exceeds the total costs to make and sell that product, the product is profitable. From a decision-making standpoint, the contribution margin needs to be positive. The number of products that need to be sold for the company to be profitable is the fixed costs divided by the contribution margin.

Here's an example using a Software as a Service (SaaS) pricing model:

- Your business incurs $10,000 per month in fixed costs.
- Your product has a variable cost of $0.10 per month per user.
- 1% of your subscribers pay for their subscription; 99% subscribe to the free version.
- You price your product at $20 per month, per user (per unit subscribed).

That looks like a very profitable product—some people will pay $20 for something that costs you a dime. But looks are deceiving. You have to cover the costs of the free subscribers, and you have to cover the fixed costs of making and selling your product.

Freemium product costs and prices

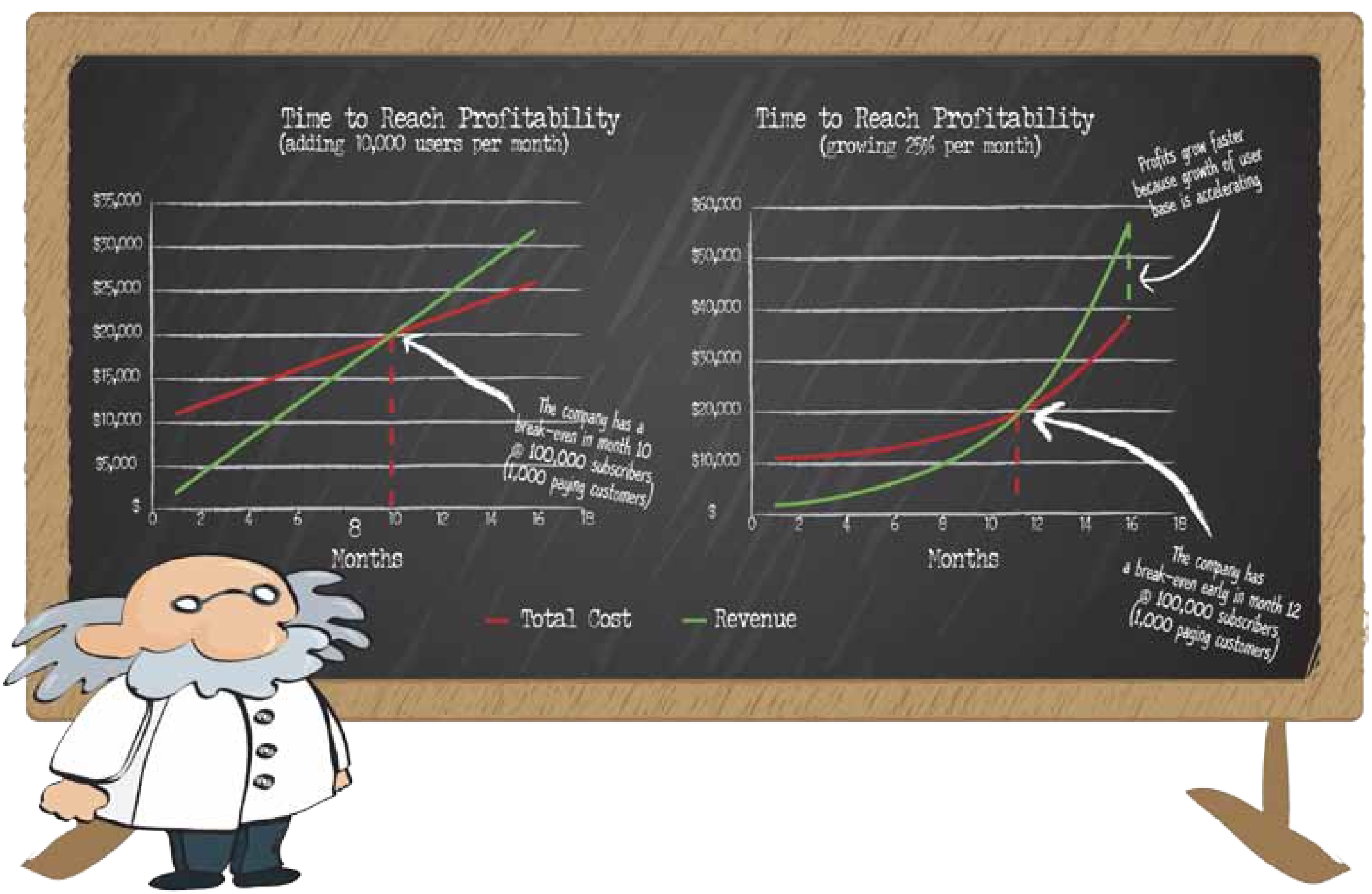
Isolating the freemium business model from other revenue-generating opportunities, shows that finding a profitable model can be tough—you have to correctly control costs and set prices. Assuming our data from the preceding example is representative (and I don't know that it is), if 1% of customers are paying customers, then each paying customer has to cover the costs of 100 free customers to have the possibility of being profitable.

The diagrams below show how long it would take for your product to be profitable with both linear and exponential growth curves. A linear curve is what you might expect from "traditional" marketing investments—where $X spent yields Y users. An exponential growth curve is what you might expect from a viral marketing approach—where each user tells X users, who then tell X additional users… and so on.

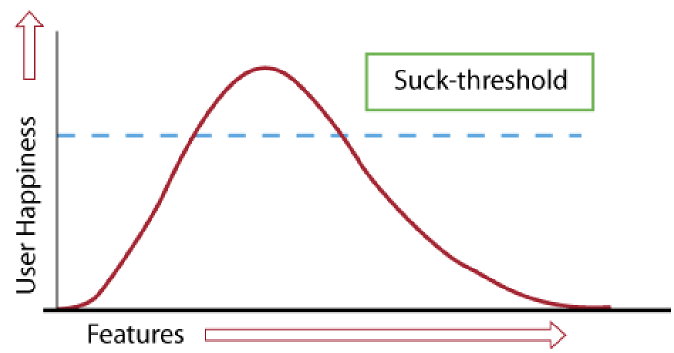
In the linear model, you have to get to 100,000 subscribers (1,000 paying customers) just to break even. This takes much longer than you would expect when selling dimes for $20! Even a 25% per month growth rate can't help you early on.

The exponential growth does start to compound, but it also delays the break-even point. This delay happens because you have to cover the costs to serve 100 free-account subscribers with the revenue from each paying customer. The contribution margin is the key here, and three things have to be true, or you shouldn't have a freemium business model:

- You have to have a contribution margin that is positive when taking into account the ratio of free users to for-a-fee users.
- You have to have a sufficiently large customer base (number of paying customers) to cover your fixed costs.
- You have to lower your costs (if your contribution margin is not positive) and grow your customer base (if it is not large enough) fast enough to become profitable—*before* you run out of funding.

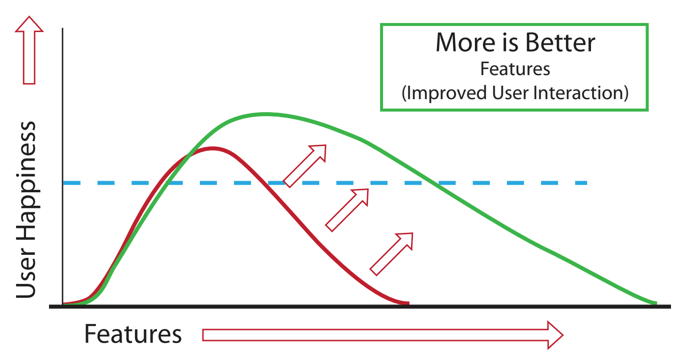


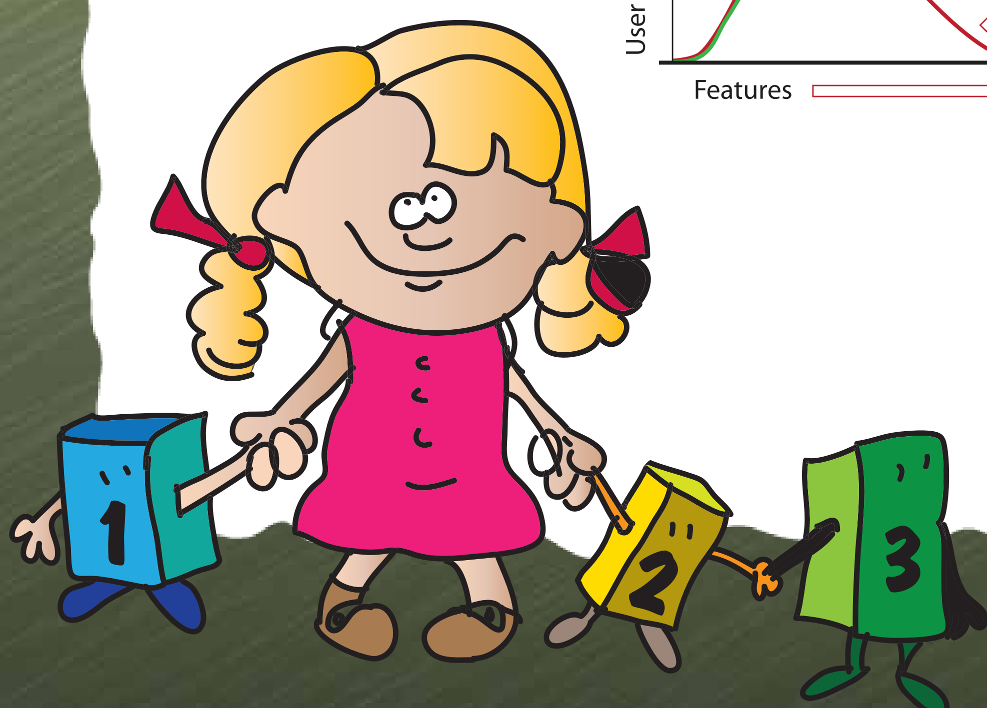
In my blog, Tyner Blain, I've written an article about featuritis called *Goldilocks and the Three Products*, which builds on some great suck-threshold ideas from Kathy Sierra.



These diagrams focus on the holistic "How good is your product from a user perspective?" question and take a Kano-analysis approach to looking at ways to improve your product.

You can improve the curve for any particular product by improving the user's experience with "more is better" features. You can either improve usability or improve performance or improve both to change the shape of the curve above. This change increases the likelihood that your product will be above the suck threshold.





Growing your customer base—word of mouth

There are a two ways to grow your customer base: traditional marketing and word-of-mouth marketing (see pragmaticmarketing.com/060324) for more detail. If you're relying on word-of-mouth marketing, there are two dynamics that drive word-of-mouth [thanks to Jonathan Berkowitz of Thinktiv.com for this insight!]—altruistic and selfish:

- **Altruistic**. This product helps me; it will help you, too. You should use it.
- **Selfish**. It helps me if you start using this product. You should use it.

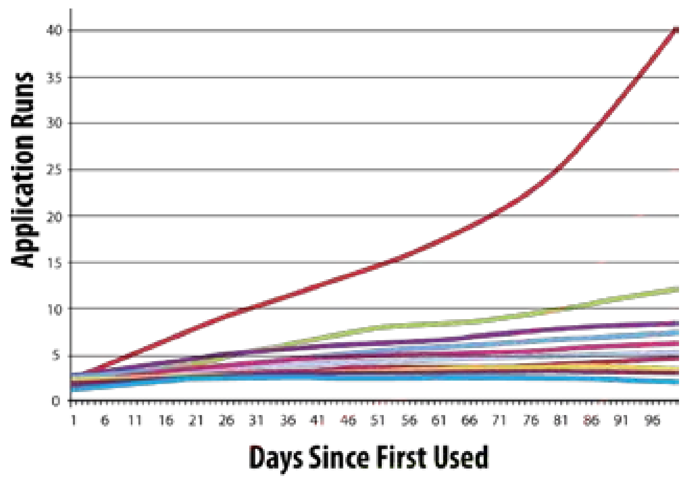
To leverage word-of-mouth, you create a product and a context where people *want* to tell others about your product. Ideally, your customers (free or otherwise) will like your product so much that they want others to use it, not just know about it.

There are two considerations in generating word-of-mouth results: marketing and product management:

- **Word-of-mouth marketing.** People in marketing, PR, and corporate communications talk a lot about viral marketing. Viral marketing is when you create a message that is implicitly viral, causing exposure for your product. A great example of a viral message is the Mentos/Diet Coke videos. People shared the video because of the video's entertainment value, not because of the intrinsic qualities of the Mentos and Diet Coke products. Viral marketing is different than viral product management.
- **Word-of-mouth product management.** Viral product management is the action we take to make a product self-propagate or self-promote —as opposed to the explicit viral marketing we do to generate awareness. You can think of viral product management as implicit marketing: a feature or capability that might have a direct impact on your product's word-of-mouth. At a high level, you simply need to create a product your customers want others to start using. But here's the catch: They have to want it *enough* to encourage others to start using it.

iPhone market data

Pragmatic Marketing likes to remind us that our opinions, although interesting, are irrelevant. So here is some data. Greg Yardley of Pinch Media shared a very interesting YouTube analysis of ad-supported iPhone applications versus paid applications. What is most relevant to viral product management is the graph on slide 26 of his analysis.



What the graph shows is that the top 10% of ad-supported applications break away from the other 90% in terms of usage. The reason (in that presentation) for looking at the data was for measuring the CPM-based revenue (cost per thousand impressions) for applications in comparison with the charge-for-the-application model. Ultimately, the free version makes sense, *but only for the top 5% of applications*, according to Pinch Media. For the rest of the field, a for-a-fee application will likely generate more revenue.

It's clear from the data that the top 10% of the applications (the discrete red line at the top of the graph) are different from the other applications. *Something* causes users to want to use those applications significantly more than others.

What Pinch Media's data does not show is how viral the applications are. In other words, do the top 10% of applications (in repeat usage per user) also have the fastest growth (in user count); and, if so, is it by word of mouth? My basic assumption is that the applications that are most pleasurable to use are the ones that can achieve viral growth. These are the applications you want to encourage others to use.

Pleasurable products

As a user-centered product manager, you are likely spending some of your time on *customer delight* (see pragmaticmarketing.com/040324) features and capabilities. These are the capabilities that wow customers and cause them to tell others about your product because it is a cool and useful product. You're also spending time on the *more is better* features and on usability concerns that make a product a pleasure to use.

You keep making it better, because there is clear ROI to increasing your user base. Improving usability makes it more likely that people will tell others about your software. Eventually, your product will be good enough that people will start telling others, and your growth will start to climb.

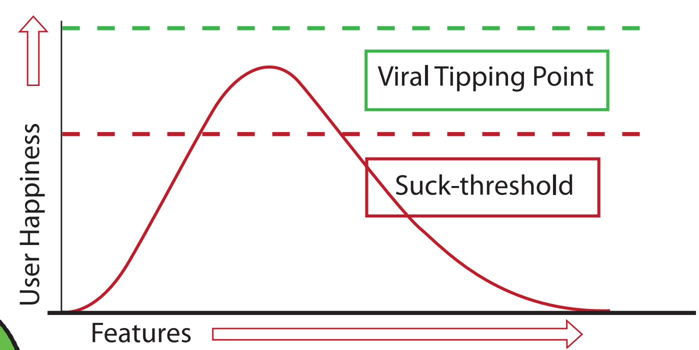
One of the dangers of this incremental product growth strategy is that you catch a case of featuritis. Featuritis is the malady where adding too many features to your product makes it less pleasurable to use.

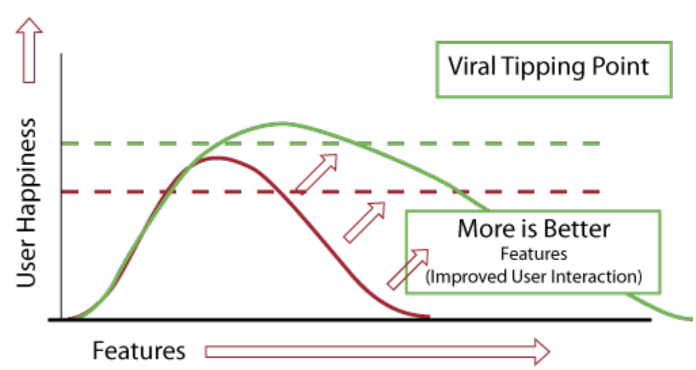
Very rarely will you hear people clamoring to remove features from your product. You're more likely to hear a steady stream of "one more thing" requests.

The problem is, too many features can make it hard for people to learn how to use your product. Simply put, there's a threshold of user tolerance for features. Having too few or too many features will make your product unpleasant to use. Above that threshold, the product is a pleasure to use. Kathy Sierra coined the term "suck threshold," to mark this delineation.

Extending the suck-threshold dynamics (see sidebar) with Malcolm Gladwell's concept of a *Tipping Point*, where things discontinuously change, there will also be some threshold by which your product is so pleasurable to use, that people will feel compelled to share it.

In Pinch Media's iPhone application analysis, we see that 90% of the applications didn't appear to tip, so I'll show the default tipping point as being out of reach (at least until you do something about it). Clearly, your investments in user interaction (and added capabilities) can increase levels of user happiness with your product until it exceeds this viral tipping point.





Modes of viral product propagation

Remembering the two primary human-nature mechanisms by which a product will propagate virally—altruism and selfishness—we can draw some additional suck-threshold conclusions. If your product falls below the suck threshold, I don't believe you can sustain *any* form of viral growth. People will be discouraged from (maybe even embarrassed about) telling others about your product.

Sharing a product recommendation builds on trust; sharing something that people won't like erodes that trust. I believe this is a self-correcting behavior, and what little sharing might occur will be short-lived.

- **Leveraging altruism as a viral mechanism.** A product that gets shared because of altruism needs to not only be better than good, it has to be *so* good that you'll go out of your way to tell people about it—with no explicit benefit from sharing. If you make your product so good that people feel compelled to tell their friends about it (or blog or tweet about it), you've got a great product. Product management decisions to achieve this feat are "easy" in that you only have to make the product fantastic for your users.

  At the same time, your product management decisions are difficult, because you have to make your product good enough to cross the viral tipping point. The iPhone, Synergy, Benjamin Moore paint (when the first local store opened in Austin, the owner was stunned by how much brand-loyal demand was out there), Tweetdeck (a Twitter client), and GMail are all examples of products that have tipped. Additional users/customers don't make the experience any better for the current users, but people still rave about it to their friends and associates.

Scott Sehlhorst has been helping companies achieve Software Product Success for more than a decade. Scott consults as a business architect, business analyst, and product manager. He has also worked as a technical consultant, developer, project manager, and program manager. Scott has managed teams from 5 to 50 persons, and has delivered millions of dollars in value to his customers. Contact Scott at scott@tynerblain.com, or join the conversations on the Tyner Blain blog at http://tynerblain.com/blog

- **Leveraging selfishness as a viral mechanism.** There are two ways to leverage people's inherent selfishness when developing products. The first (and harder) is to define capabilities or features for the product where the customer's experience is better when more people use the product. Twitter (and Facebook and other social media applications) take advantage of this. If you're using Twitter as a broadcast medium, then the more people who listen to you, the more value Twitter has for you. So you encourage people to use it. On the reverse side, if you're looking to Twitter as a source of good information, the more people who are sharing information on Twitter, the more valuable Twitter is to you.

  The second (and easier) way to reward customers for encouraging other people to use your product is to explicitly reward them. Affiliate programs, finder's fees, account credits, or other compensation can be given to existing customers in exchange for signing up new customers. A SaaS variant of this would be a program that rewards you with credits to your account for every customer you refer, for as long as both of your accounts are active. People can get your product for free if they encourage enough other people to buy.

To be sustainable, either of these selfishness-model variants would need to be leveraged to promote a product that is actually good—at least above the suck threshold. But the product does not need to be above the viral tipping point.

Conclusion

You can create viral messages or videos that spread awareness of your product tangentially…or you can create compensation programs that encourage people to promote your product…or (best of all) you can create products that promote themselves.

As a product manager, it is far better to create a viral product that people love than to cross your fingers and hope that a marketing message creates viral exposure. Simply put, why not be intentional about viral product management rather than hope to get lucky?

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Ask the Expert

We have several well established product lines with roughly once per year major release for each product. We've traditionally named them version number following the name such as MyProduct 6.3 which seems to be a fairly common practice in the software industry.

We are now getting to a point where these version/build numbers don't really reflect our development efforts because the rate of change of these versions keeps decreasing over time.

So we thought about breaking with the tradition and use a year number for each major release like Microsoft does such as MyProduct 2008 (who cares that Office 2007 is actually Office 12.x or SQL 2008 is SQL 10.x?) but this could lead us into another set of issues. Are there other naming conventions out there? How can we reflect our products' evolution in their names?

Product version numbers are primarily internal tracking numbers used by technical support, development, and QA. I've spent many hours on technical support calls and surely one of the first questions one asks is "what version are you running?" Perhaps the easiest call to take is one where the problem occurring in version 1.1 is solved in version 1.2. The support rep just says, "Yes, that bug was corrected in version 1.2. Please upgrade."

Product version numbers typically consist of three fields: the major version, the minor version, and the update version.

X: major release with identifiable new features
Y: minor release with existing feature improvements
Z: update release (distributed) containing bug fixes but no new functionality

There is often a fourth number associated to the code build. Not all builds are distributed but this number generally represents a count of builds from the beginning of the development project.

So 9.0.1.3821 means

9: Major release of functionality
0: no minor releases yet
1: bug fix released to public
3821: development build

These program version numbers need not necessarily correspond to the numbers used in our marketing, as we see with Microsoft products. Word 2000 (communicated to the public) is really Word 9.0.1.3821 (internal to the product team). Product marketing owns the name that's distributed; Development owns versioning and the project code name.

Numbering schemes are largely irrelevant to customers; versioning is only for keeping track of what is shipping to the customer. There are many software developers who think that numbering schemes are a not-important marketing aspect of the product. Marketing people and customers generally do not (or should not) care about version numbers.

What should you tell the public?

In most cases, a change in the Major version justifies a product launch with a press release or some communication in the market. Some companies use the major number to require companies to pay for the upgrade rather than getting it free as part of the maintenance or subscription.

Minor upgrades are proactively communicated only to the customer base but not to the general public. They don't justify a formal launch beyond getting the company ready to support it.

Updates are communicated on the website and from tech support. Power users will encounter the update information on the product support area of the website and download it. The majority of customers need not know about it unless they encounter a problem fixed by the update.

Builds are never communicated outside the product team (development, QA, product management, and usually tech support).

Project Code Names

Project code names are often assigned to a new project; these are also internal to the product team. Frankly, we recommend that project code names be silly or somewhat offensive. Use foods, diseases, or cartoon characters as the basis for code names. I doubt people will talk publicly about the "Deputy Dawg" release or "Taco" or "Ear Wax." Otherwise, some names seem so clever that we start using them outside the team, and pretty soon the channel knows and then the customers knows. Before long we start getting calls about the status of the "Nile" release. And when we decide the actual product name, everyone has already gotten used to calling it "Picasso" and it's much harder to get the real name accepted.

Using Versioning with goals

In *Requirements That Work*,™ we teach a technique for using goals to define sets of functionality for release. Goals help us achieve a ship date with a product release that offers a complete using experience. Versioning can help here as well, with one modification. Since we group the product requirements by user goals, we can use the version number to define target sets of functionality. We'll use the "bug fix" for release candidate.

Let's say we're doing a new major upgrade, planned to be v2.0. The new release has a new data model and other architectural design changes. When these changes are complete, we can extend our 3-D modeling capabilities in four functionality areas. If we can complete it by the end of the year, we'd also like to offer a new set of statistical functions specifically designed for business planning that allow the customer to calculate time value of money as well as NPV (net present value) and EVA (economic value add). Using goals with versioning we can plan:

V2.0.0 = architectural changes
V2.0.1 = 3D modeling
V2.0.2 = business planning suite

After completing version v2.0.0 we can begin the functionality for v2.0.1. After that goal is complete we can begin v.2.0.2. What if we realize we need to ship before v2.0.2 is ready? Just release v2.0.1—the last set of completed customer functionality—as 2.0 and then continue developing v2.0.2. When completed, we can release this functionality as an update, as Microsoft often does with service packs, or as release 2.1. In this case, the "bug fix" node is serving double duty: as release candidate on prerelease product, and then as bug fix for released products.

Version control is a required element of mature product planning, largely an internal method of tracking. Version numbers catalog which features and fixes are available in different distributed versions of the product. Versioning can also be used to accommodate goal-oriented product planning, as taught in *Requirements That Work*. Project names are merely shorthand for specific development projects and should always be kept internal to the company. The nomenclature doesn't really matter as much as an understanding of what version numbers and project names mean to your product team and its customers.

Additional thoughts

I have seen four themes for naming releases:

name (or model number without any version numbers) (salesforce, Linksys WRT54GL)
name + year (Office 2007, iLife 08)
name + version number (iTunes 7.3)
name + release theme (remember OS/2 Warp?)

Hosted services tend to have no visible version number although there is always a version number somewhere for tech support purposes. Obviously, Microsoft has gone with the year method and there's something great about that: You know that you're really out of date if you're running Office 2000. The negative is if the vendor hasn't delivered anything since 2000.

In the end, I think the naming standard depends on what you're trying to accomplish. A major release usually means that you charge the customer for it. I actually am annoyed when I'm charged for a minor release. I just upgraded from a product's 7.1 to 7.3 and had to pay $75. I'd be more willing to pay to go from 7.x to 8.x—which is the most common situation. But at version 12 and 13, this starts to get a little ridiculous. Version numbers become less relevant as the product reaches maturity.

I suspect that your customers do not care except as the name or version relates to billing. TPM

Steve Johnson is a recognized thought-leader on the strategic role of product management and marketing. Broadly published and a frequent keynote speaker, Steve has been a Pragmatic Marketing instructor for more than 10 years and has personally trained thousands of product managers and hundreds of company senior executive teams on strategies for creating products people want to buy. Steve is the author of the Product Marketing blog. Contact Steve at sjohnson@pragmaticmarketing.com

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EXPAND Your Comfort Zone

By Xenia Kwee

A Product Management Quiz to Point You in the Right Direction

OK…I will write it down for all to see right here: I am a product manager. Sometimes I cry at work. There are restrooms on both coasts and in Europe where I have retreated and cried, looked in the mirror, and somehow convinced myself to step out that door and keep on going. It's not that unusual really. I have come close to crying at work when I was a teacher, an artist, a temporary file clerk, and a waitress. So why shouldn't product managers cry?

What seems odd is that, after all these years, I am in an occupation for which I possess experience and qualifications (unlike the days when I tried my hand at construction, astrophysics, phone sales, and fortune telling). And I believe I have reached some level of maturity and ability to put things in perspective; yet occasionally, I just lose it. Maybe it has something to do with being in a role where I have very little control, but feel responsible for everything. It's a role that requires my involvement in every detail, but does not give me the opportunity to develop expertise in anything. It's a role in which I must try to work well with everyone and still be prepared to deliver bad news to those same people. →

Three constituencies

The three key constituencies I work with every day are Sales, Engineering, and executives. Their goals are in conflict with one another. Their working styles are dissimilar. They often don't trust each other. I have the privilege of working with all of them, listening to them, and trying to give meaning and direction to their work.

It is easy to imagine that if the engineers ran the company, we would have the most perfect product ever, but it would be several years late to market. If the sales force ran the company, we would give all customers exactly what they asked for, and end up with 1,000 different products. But since the executives run the company, they give the product manager the impossible directive to "get it done; get it done right; get it done faster—and have the foresight to change direction in midstream and still get it done right and on time."

In order to have a rewarding job amidst these challenges, it is important to develop effective relationships with all three constituencies and to balance the needs of each group. We all have skills and ways of working that come naturally to us.

By nature, some of us are drawn to the sales team. It's where the energy is—where the highs are high and the lows are truly way down low. Some of us prefer to hang out with the techies, grapple with the tough problems, find elegant solutions, and revel in that great sense of accomplishment that comes from breaking new ground. Others are skilled at inspiring executives and investors, at painting a vision for the future, and at distilling vast amounts of confusing information into nuggets of great wisdom, which can create unique opportunities. Yet, no matter how masterful we are at working with one area of the company, it is inevitable that another area will feel shortchanged.

Product management quiz

To help you assess your effectiveness in working with each constituency, I developed an assessment of product management types. It's a bit like the Myers-Briggs test, but just for product managers. If you are a product manager torn in many directions, give it a go, and see how your score matches up against the product management archetypes.

Product Management Quiz

For each question, choose the *one* answer that best describes how you work as a product manager.

1. A nearby elementary school is holding Career Day. Your job is to take seven 10-year olds on a tour of your company's offices. Where do you take them first?

a. The R&D area, where they can see the equipment and the whiteboards full of drawings and writing

b. The large conference room where they can sit in swivel chairs and play with PowerPoint

c. The sales area, where they can see the awards and the map with a colored pushpin for every customer location

2. Your company is in the process of acquiring a firm in Oregon. You are going there with a colleague for a one-day due diligence visit. The schedule calls for a red-eye flight home. This means that you and your colleague will spend seven hours together at the airport. With whom would you prefer to travel?

a. Head of Technology

b. Head of Finance

c. Head of Sales

3. You just had a great phone interview with the CEO of a newly funded startup. She is looking for someone to start a product management team. She asks you to send her a sample of your work immediately, so she can show it to the investor who urged her to bring on a product manager. Which sample do you have readily available that illustrates your work?

a. Product Requirements Document

b. Business Case showing revenue and profitability projections

c. PowerPoint presentation showing a product's features, benefits, and competitive position

4. You spent three days at a tradeshow. You've been in non-stop meetings, demos, and press briefings. It is the last day of the show, and you have three hours of free time before leaving for the airport. What do you do?

a. Visit lots of booths and collect neat giveaways, so you can hand them out to the engineers back at the office

b. Swap badges with a colleague, so you can attend the closing keynote. Corner the speaker and convince him to co-author an article with your CEO

c. Crash a competitor's sponsored breakfast, where you are sure to meet customers open to switching vendors, given the competitor's dismal financial results last quarter

5. You and your boss are waiting for a plane. She pulls out today's newspaper and offers you a section. The section you request is:

a. Science and Technology

b. Financial News

c. Sports

6. You are expecting a call from an industry analyst who wants to interview you for a study about your product and products like it. You take a few minutes to review his firm's website, where you notice they have recently written a brief about a new company with a product that sounds a lot like the product your company is developing. You go to the competitor's website to find out more. There are three links on the company's front page. The one you click first is:

a. Technology and Whitepapers

b. Investor Relations

c. Customers and Case Studies

7. It's the Wednesday before Thanksgiving. You've enjoyed a nice lunch, and you are about to craft an out-of-office message, when the head of Sales stops by to show you an RFP she received. There are two other people available to help complete more than 300 questions over the holiday. You glance over the questions and feel positively about your company's ability to win this business. You volunteer to answer the section about:

a. Product architecture

b. Corporate information

c. Pricing

8. It's hard to believe that in these difficult times you find yourself with two job offers. Both jobs offer similar base pay and benefits, and both jobs provide a very good fit for your career goals. Your gut is already telling you which one you want. Clearly, you are drawn to the job that offers:

a. A chance to work with really cool technology

b. Preferred stock options that could be worth a lot when the company goes public or is acquired

c. A great big bonus if your product meets its revenue goals

9. Your favorite nephew borrowed money from his roommate and started a business. You are eager to see him succeed, and you agree to spend an occasional evening helping him out. As a first step, you offer to:

a. Create a website for him

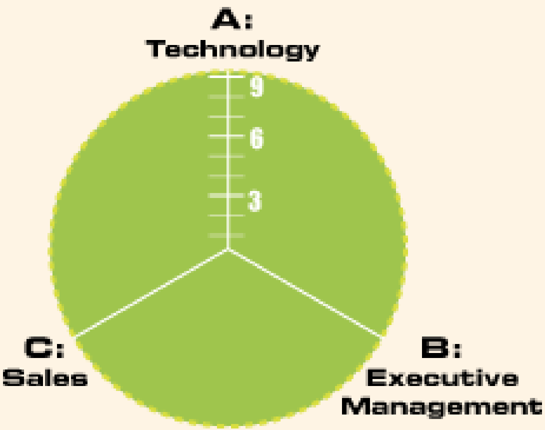
b. Setup Quickbooks for him

c. Fine tune his sales pitch

→

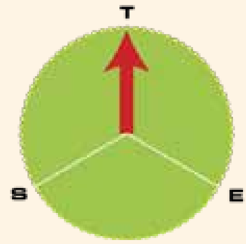
Let's look at your score

To determine your score, count the number of times you answered a, b, or c and plot your answers along the three axes shown in the following chart.

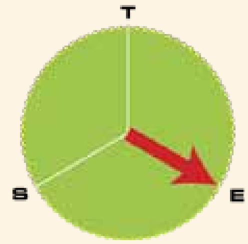


Note that quiz results are not a reflection on your skills or experience, nor do they reflect where you spend most of your efforts. Your results show your natural tendency to work with one area of a company versus another. Your graphs might also show where you are most comfortable in times of pressure.

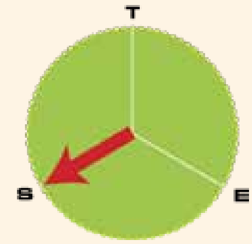
If you have a clear preference for working with just one area, your graph might look like this:



You are drawn to technology and technical people. Seek opportunities for meeting with customers going on sales calls.

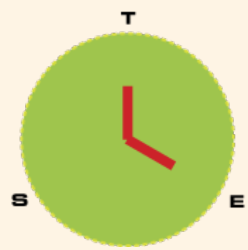


You have executive talents. Have you considered running your own company?

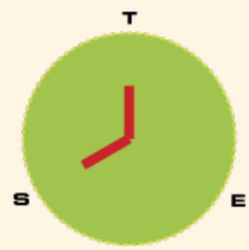


You are a great supporter of the sales team. Hopefully they reward you. Take some time to go see the engineers. They may be getting lonely.

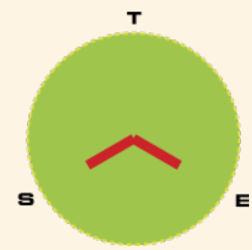
If you have skills in two areas, here is how your graph might look:



You are a visionary who sees vast new opportunities for technology. Long sales cycles frustrate you. Make sure you follow-up with existing customers. You can gain great insights from them

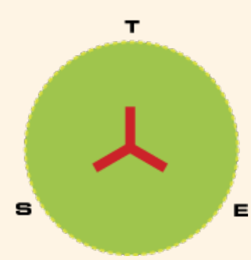


Technology and Sales. What a rare combination. You will never lack job opportunities. But will your products make money?



Does the word Strategic appear in your title? In the current downturn, people may wonder what you really do. Why not volunteer to answer the next 80 page RFP?

And if you have the rare ability to work with all three, your graph will look like this:



You like to stay will versed in all areas of the business. Your interest and style enable you to develop a common vision for your product that is inspiring to all you work with. You are not easily intimidated by demanding customers or complex technology. You try to understand what is behind the complaints or the complexity and use it to chart a new course.

Expanding your comfort zone

So now that you know where you are most comfortable, it is worthwhile to consider how you can become more adept in those areas where your natural talents and style are not as strong.

A great way to expand your comfort zone is to ask people in those areas some basic questions. Here are some examples.

- If you find yourself completely overwhelmed by a CEO who constantly forwards press releases and articles…ask what she thinks about those articles, how she learned to sift through so many different viewpoints and distill what is important today, and what issues to track with an eye toward the future. You may find that this endless stream of information isn't meant to overwhelm or discourage or distract you. It could be that all she expects you to do is organize it and pick out one or two ideas or trends each week that capture your imagination.
- If you find that the engineers' endless requests for more detail and more precision create an insurmountable amount of work for you, take a step back and think of ways to provide the engineering team with new insights and inspiration. Provide them vivid examples of how the product is used by real people. Tell them users' names; tell them about those users' interests, ambitions, and frustrations. Before long, you will find that the engineers are able to make better decisions and require less detailed specifications—because they have a better idea of how the product will be used.
- If you have a hard time responding to requests from Sales, first remember how fortunate you are that there are people out there selling your product. Even if they ask for things that are nowhere on your roadmap, acknowledge their input. Schedule regular feedback sessions with Sales, and let them know about the direction of the product. Provide them with talking points they can use at customer meetings and questions they can ask. And make the time to go on calls with them whenever you can. This process allows you to talk to customers without being in selling mode, discover opportunities, and gain feedback. By working together, you can align the customer's plans with the product plans, and avoid those difficult situations where you have to commit to developing one-off solutions.
- If you work in a team of product managers, you have a great chance to learn from one another and to shamelessly copy other team members' techniques. If you are a manager and have a chance to put together a team, look for product managers with different backgrounds. Put a hot-shot MBA side by side with an experienced engineer-turned-product manager. You will end up with two well-versed product managers.

TPM

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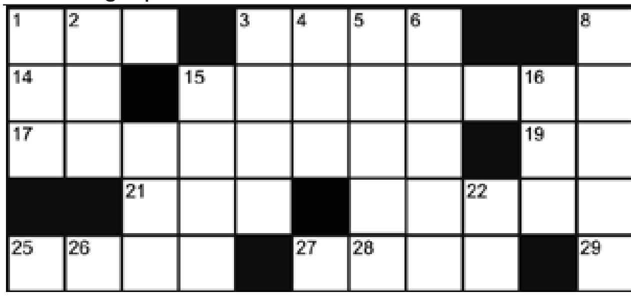
Marketing *Up* (and *Down* and *Across*) in a Down Economy

By Brian Hession

In recent months, I sometimes feel as if every marketing message I hear is about how to react to the down economy. A Google search on "marketing in a down economy" returns over 22 million hits—articles, whitepapers, and complete websites devoted to the topic of how to change your tactics in light of the current financial crunch.

But does a changing economy really call for a change in how we do business? Well, not exactly. Assuming that we're already following best-practice marketing approaches, we're already part of a lean, ROI-oriented, targeted awareness, and demand-generation marketing machine.

So, while we don't recommend changing your tactics because of financial belt-tightening, the current climate does magnify how important these best-practice approaches are—particularly in relationship to growing your contact database.



DOWN

2. Purchase

5. Profit

ACROSS

15. To increase

Expanding your footprint

Your contact database is, by its very nature, a fluid thing. If your universe of known contacts never changed, you wouldn't have to worry about new lead generation, cold calls, rental lists, or database cleansing and appends. But the fact is, your contact database is a living thing—contact data changes, contacts become invalid, and new contacts are created as the result of succession planning, downsizing, and other career moves.

Because of this ongoing change, the best measure of database quality is not just the decision-making contacts you have today, but also the number and quality of contacts that ensure your account relationships in the future.

Of course, in recessions, turnover tends to increase. This simple fact means that contact databases become outdated at an even more rapid pace than usual. If your customer contact leaves his or her employer, you need to make sure that your relationship doesn't leave with that person. There are few situations as frustrating as investing time, energy, and money into building a relationship with a customer contact, only to find one day that your contact is gone, and your door to the account has been closed.

So how do you ensure that your relationship with your customer is greater than just a relationship with a contact? Look beyond the typical decision makers, and focus efforts on expanding your footprint of contacts at your client and prospect accounts—up, across, down, and out.

- ***Expanding up.***

  Building a relationship above your primary buyer is always a good strategic move. Establishing value with higher-level executives helps them to see your product or service as a value to their organization—not just an expense item on a budget sheet. In addition, if management is familiar with your company name and sees you as the market leader, they are likely to communicate this to anyone new who is taking over the initiative with which you're associated.

- ***Going wide.***

  Widening your contact base at an account also helps solidify a long-term relationship with that customer. Communicating across an organization—to other divisions or departments—has the added benefit of uncovering new opportunities in other areas of the account. Especially in larger companies, where reorganization often accompanies turnover, a wider footprint can mean both retaining and growing business if yours is the preferred product or service. Finally, lateral contacts are often much more likely than upper management or lower level contacts to give you information about changes in the organization if your primary contact is displaced.

- ***Shifting down.***

  At the same time, lower-level employees have the opportunity to expand into new roles and responsibilities when vacancies occur above them. For the marketer, making an impression on these contacts—before their roles change—is crucial. Not only does it give you a leg up on your competitors, but contacts in a new role, eager to prove themselves, are likely to reach out to you if they feel that you can increase their perceived value to management. For this reason, expanding your reach to contacts below your typical buying authority can lead to unexpected gains in a volatile market.

- ***Moving out.***

  It is also important to consider how structure changes can actually have a positive impact on previously non-buying contacts. Turnover can often be positive for those involved—both for the displaced and for the employees who remain. Displaced workers, who may not have had the authority or budget to buy your product or service in the past, often find the situation has changed when they are hired by a new employer.

Expanding your reach: understanding your audience

While expanding your reach does mean widening the criteria you use to define valuable contacts, it doesn't necessarily mean *unconditionally* widening it. To be effective, you still need a fairly tight definition of the demographics of your target contacts.

It's helpful to think of your contacts as falling more or less into three categories:

- Buyer/decision makers
- Executive/influencers
- End users

If you are a provider of engineering software, for example, your end user might be an engineer; your buyer decision maker might have an IT title; and your influencer might be the CFO. Generally, for each of these three buckets, you have multiple titles and roles.

It's also important to know the demographics of your target accounts. For existing customers, this list is probably a list of account names. For prospects, you might know specific account names, or you might just have a list of demographics, such as size, industry, or sales revenue. In a depressed market, it's particularly important to focus both on customers and prospects for the best opportunity to capture all available leads.

When reaching out to influencers and end users, it's important to understand that you're not necessarily expecting a response from them, and to adjust your metric goals accordingly. You might even consider segmenting and tailoring your marketing messages based on contact type. Considering the engineering software provider example, you might want to offer a free trial of the software to your users, a webcast about a critical business issue to your buyer/decision makers, and an ROI study to your executive/influencers.

Even when sending marketing messages to buyer/decision makers, it's best to set a reasonable benchmark for responses that is below that of your current internal database. Some of the prospects you'll acquire will be "pre-pipeline"—in other words, at a very early stage in the sales cycle. Your first contact with them represents the beginning of a targeted awareness process—a marketing relationship that should give you a competitive advantage and help you move the contact towards identifying a clear need.

A staged approach to marketing relationships

Once you have added these prospects to your internal database, you can then implement multi-stage "prospect nurturing" campaigns through your lead-automation platform. Prospect nurturing refers to the process of generating interest, converting this interest into an inquiry, and moving the prospect into the sales opportunity process. This can be accomplished with a timed, integrated flow of thought assets (such as whitepapers, case studies and webcasts), which build brand awareness and warm the prospect. The result is typically a spike in both the volume and quality of leads entering the front-end of the sales pipeline.

On the other hand, in contrast to the longer sales cycle just described, some of the net-new prospects reached through new data acquisition may be in a much later stage of the sales cycle. This latter category of prospects represents quick wins, as they may be already at the buying stage in the sales process and simply unaware of your company as a potential vendor. ➔

DOWN

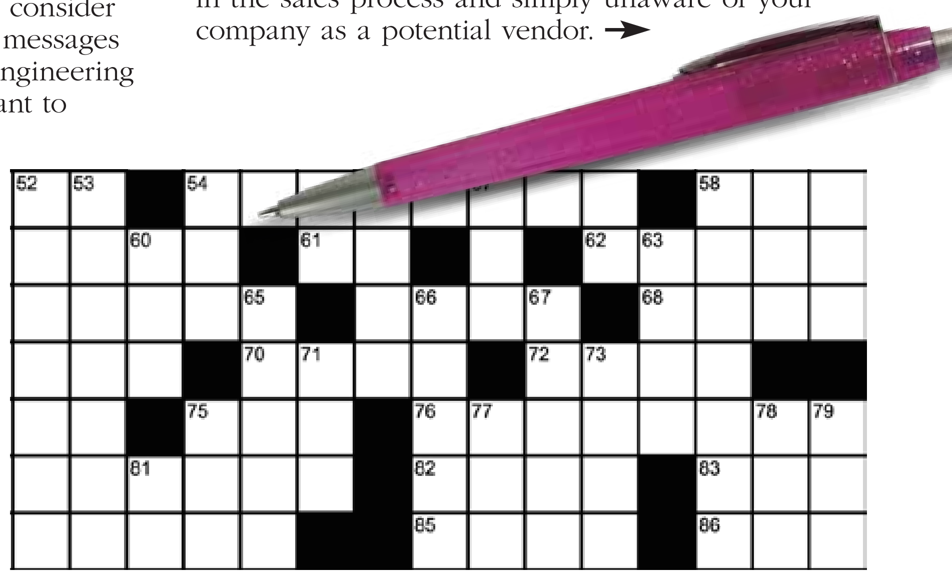
66. Web ________

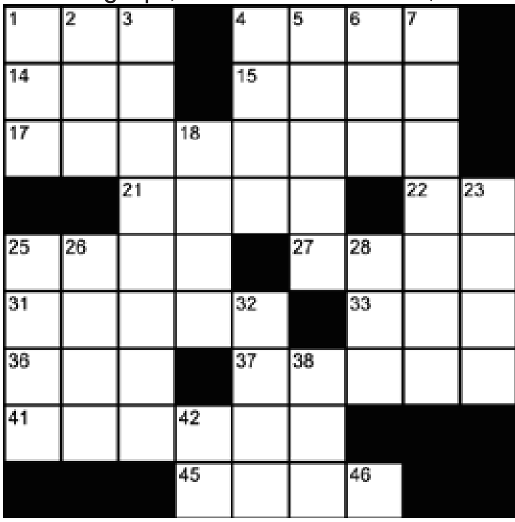
78. Return On Investment

ACROSS

70. Information

76. Computer program





DOWN

3. Collection of info
4. Prospect

ACROSS

4. A group of names
31. Electronic message

Acquiring new buyer/influencer contacts at existing accounts can mean new revenue from current accounts—in the form of sales of new products, services, or upgrades to existing contacts; or in the form of an expanded footprint of sales for your products and services with new departments, divisions, or functions.

With these potential opportunities in mind, it might be tempting to try to cast as wide a net as possible—reaching contacts regardless of title and company profile. However, defining your target account type is still crucial. Reaching the "right contact" at the "wrong company" is generally not a good use of your marketing spend.

Even in a volatile economy, with increased contact mobility, contacts are likely to make lateral moves, and tend to seek out new employers that closely match their previous experiences. By keeping your account criteria specific, you ensure that you're focusing on buyers, influencers, and end users that are most likely to build a valuable relationship with you.

Where are the contacts: the challenging state of third-party data sources

With your contact criteria defined, you need a source for new data. Ideally, you want a source that will reach only contacts with the right titles, at the named accounts or defined account types that you've identified. Your best bet is generally third-party data sources—contact data that is gathered, maintained, and managed by a third party such as a publication or research firm.

Unfortunately, identifying customer and prospect contacts who meet specific criteria is difficult. Third-party list segmentation, therefore, is often flawed or unavailable. Nearly every list order contains some percentage of undesirable contacts. Even if you find a highly targeted list source, it is unlikely that the entire subscriber base meets every criterion. And "highly targeted" generally means small; applying segmentation filters often reduces the list below the required minimum orders.

When dealing with larger, more general databases, it is not uncommon to find that the filters you need most—company size, industry, or geography—are not even available. This combination of minimum orders and unavailable filters means marketers feel unable to isolate qualified records, and are forced to buy data that does not fully meet their needs.

What is the cost of poor third-party list segmentation? It's easy to rationalize gathering unqualified contacts into your marketing database—as long as it means adding qualified contacts, as well. After all, most organizations now rely heavily on email marketing, and marketing to unqualified contacts as part of your regular marketing efforts seems like a cost-neutral side effect. But buying, importing, and managing bad records can have a larger impact on your marketing time, costs, and resources.

Only magnified by economic downswing, the commercial, third-party data landscape has changed dramatically over the past few years. Along with major consolidation among existing vendors, there are many new entrants trying to capitalize on the growing demand for sales and marketing data.

As the market becomes saturated with vendors, a majority of these new providers have tried to differentiate themselves by offering a more complete prospect record, including postal information, phone numbers, and email addresses. While these firms provide sales and marketing executives with instant access to information, their data collection and transfer processes often present accuracy, privacy, and legal compliance concerns.

Here, we'll look at the issues and opportunities surrounding lists for both email and postal/telemarketing (typically these contacts are bundled).

Permission-based email: third-party list rental

There are myriad sources of email lists on the market today—of varying quality and legitimacy. For this reason, the majority of marketers familiar with permission-based email rentals rely on lists derived from and managed by controlled-circulation trade publications.

There are many advantages to publication-based lists—for example, the publishing industry has implemented stringent protocols to ensure that their email list products comply with both CAN-SPAM laws and the Direct Marketing Association's best practices. Because the rental list represents subscribers, without which the publication would not exist, publishers are especially sensitive to privacy-related issues.

Also, most publishers insert a mandatory header and footer within the marketer's email message, which clearly identifies either the publisher or the specific publication to which the recipient is subscribed. Recent analysis indicates that the insertion of the header actually *improves* email performance, because it quickly distinguishes the email from SPAM. In some situations, the identifying header also provides the perception of a "soft endorsement" of the renter, which correlates to higher open and click-through rates.

As most marketers would agree, the email marketing channel's strongest benefit is its immediacy. Email, unlike direct mail and telemarketing, generates the majority of responses within 24 hours—enabling faster sales follow-up.

The rental cost for a quality, permission-based B-to-B email list ranges between $0.35 and $0.45 per delivered email. This cost includes the service bureau fee for the actual transmission of the email.

While postal lists tend to have a less expensive per-name cost (averaging $0.15 - $0.28), printing, data processing, and postage costs can increase total investment by more than a dollar per contact. Thus, in comparison to other mediums, email is relatively inexpensive and presents marketers with a powerful demand-creation tool.

It may seem surprising, then, that third-party email rental is actually *losing* share of the marketing budget compared to other marketing tactics, but the channel does present significant shortcomings:

- ***Difficulty segmenting databases.*** Database size and variations in the detail collected on qualification cards mean you might be required to spend money on contacts that do not meet your criteria.
- ***Heavy population with webmail domains.*** Personal email addresses typically represent a large percentage of contacts and result in less-valuable sales leads.
- ***Blind process.*** Due to privacy laws, marketers must accept on faith that contacts are being segmented and emails being deployed as specified.
- ***Inability to suppress duplicates across multiple list rentals.*** Because publishers typically don't communicate with each other, there is no way to suppress duplicate contacts when renting multiple lists, which tends to correlate to higher opt-out rates.
- ***Too many unqualified leads.*** Marketers must rely on the honesty of contacts to accurately portray their demographics—which are often misrepresented to get free subscriptions.
- ***Minimum order requirements.*** Most publications require a 5,000 contact rental —which makes specialized segmentation difficult.

Of this list, the number-one challenge cited by email marketers is the generation of unqualified leads. For example, a client targeting prospect companies with more than 500 employees asks that the rental list excludes smaller organizations. The campaign deploys, the respondents come in, and the client is forced to disqualify 20 to 25 percent of these new contacts because they do not meet the minimum company-size criterion. As a result, the client perceives poor value from the investment.

→

How is this scenario possible? The explanation is fairly simple and is directly related to the data-collection methodology. The business demographic information on most lists is self-reported by the subscriber, who provides bad information (unintentionally or intentionally)—inflating company size, choosing the wrong company industry, or claiming purchasing power for products and services over which they actually have no influence. To date, publishers have not provided a solution to this deficiency.

This inability to refine lists to accurately match target-audience specifications leads to lower response rates and less attractive return on investment. In addition, email marketers must take on faith that the intended segment is even attempted. Because privacy laws limit direct access to prospect data, only a publisher's designated service bureau has visibility into whether the correct segmentation has been applied.

DOWN

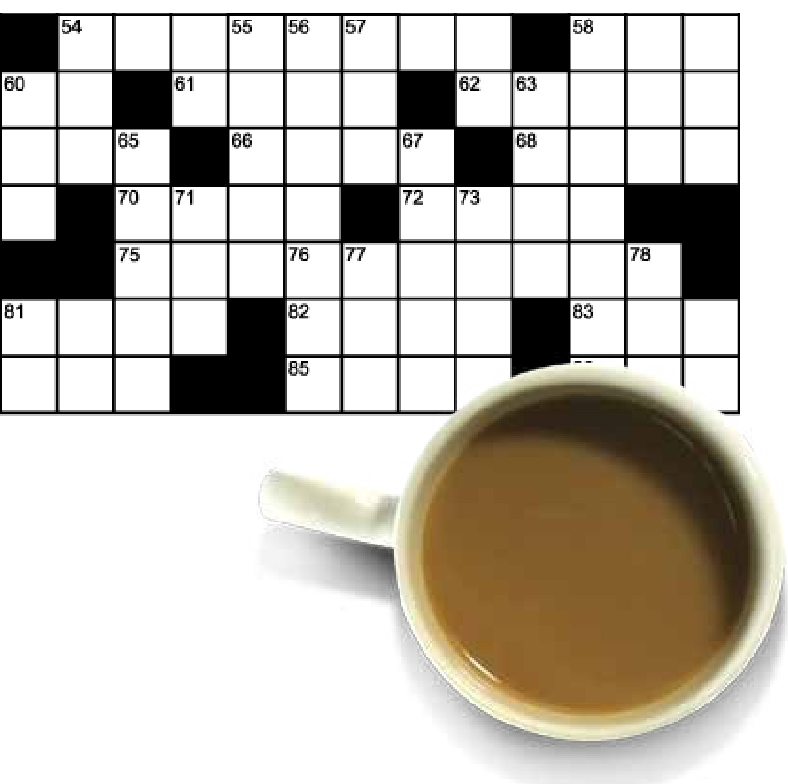
67. To arrive at

78. Aiming points

ACROSS

54. Method

75. Phone solicitation



Telemarketing and postal: third-party list rental

Similar to email list rental, telemarketing and postal data rental also presents significant inefficiencies. The primary complaint about postal list rental is limited segmentation. Limited, pre-defined filters (established by the data owner) mean that the client's target audience cannot be effectively isolated. The result is a list containing a large percentage of unqualified contacts, and wasted marketing costs (in the form of printing, postage, etc.), if these contacts are not weeded out before the campaign is deployed.

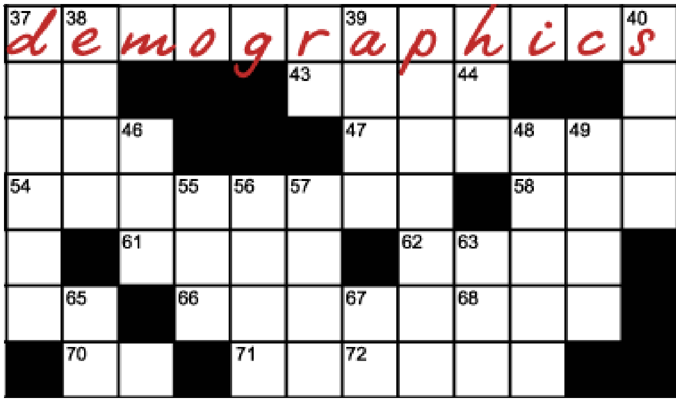
Direct mail, once highly respected, has experienced the largest drop-off in the past three years. Industry experts cite rising paper, printing, and postage costs as the major culprit. These increased costs have narrowed the margin of error and have placed postal list quality under greater scrutiny. If a prospect mailing includes 20 to 30 percent non-targeted records, post-campaign measurement will likely prove the channel is not economically feasible. As a result, direct mail has been branded antiquated, and the newer crop of marketers possesses little, if any, knowledge of the direct mail process.

Change your approach to third-party marketing

There is no doubt that marketing is becoming more and more competitive; and, as a result, more and more challenging. Yet third-party data sources are not improving in response to these challenges. If anything, their quality, responsiveness, and accessibility have reached a plateau.

Because data sources are not changing, it is the marketers themselves who must change their approach to third-party data to find new value. In an unstable global environment, marketers must innovate—and marketing service providers need to seek new approaches to maximize their clients' return on investment.

Effectively tapping into third-party list sources, reaching new contacts, and sustaining existing relationships can make all the difference in a down economy.



DOWN

39. Buyer description

40. One of a series

ACROSS

37. Statistics of a group

71. Purchases products

Five Steps to Expanding Your Reach

With myriad third-party data sources and data challenges, it's no wonder that today's marketer finds navigating through the sea of options a time-consuming and frustrating process. Still, the benefit of effectively leveraging third-party data sources—particularly when every lead is important—is worth the extra effort.

The following steps will help you more effectively leverage available data sources to reach end users, influencers/executives, and buyer/decision makers at your best accounts.

Step 1:

Target account definition

The first step in expanding your reach is to create a list of target accounts. This often requires some collaboration with your sales group. If you don't have a set list of accounts, define ideal prospects based on a combination of business demographics, such as employee size, revenue, industry and geography, or other business intelligence data. Using these criteria, you should be able to create a target account profile and create a list of companies meeting that profile.

Then, think about your end users, influencers/executives, and buyers/decision makers. For each of these categories, define as many titles as possible. Understand that, using third-party data sources, some very specific titles are much harder to identify than others. It will be much easier to find "manager-level IT professionals," for example, than it will be to find "technical writers."

Step 2:

Company database design

Once you create your list of target accounts, you should develop this set into a record of information about companies (called a domain database). This can be done either manually, or through a standard process of comparing your list of account names to a commercially available corporate information database.

Why is this step so important? Because of the inaccuracy of self-identified selection criteria, drilling down to actual company domains is the most reliable way to identify qualified accounts in third-party data sources. As part of this process, you also have the opportunity to append specific company demographics to each account record. This information can be carried over when new contacts are acquired, and can even populate your CRM system with important sales information.

Step 3:

List strategy design

It is important to identify a set of proven, high-quality, consistent data sources to serve as primary lists. Best-in-class data providers should be able to qualify their selections with historical metrics on list performance. This information allows you to compare lists from various sources and establish a benchmark for a successful response. Unfortunately, few vendors are willing to divulge list statistics directly, so you may need to engage a partner for this capability.

Whether you know the response metrics or not, you should also research and evaluate a wide variety of secondary lists from smaller-circulation publications, associations, and research-based databases. Score these data products based on available segmentation, historical performance, and overall data. Many experts tend to prioritize data-driven products, but it's sometimes worthwhile to consider additional lead-generation vehicles—such as e-newsletter sponsorship, banner placement, co-registration forms, whitepaper hosting, and co-branded webinars—to maximize reach.

Step 4:

Prospect pool construction

Once the criteria and data sources have been defined, the next step is pulling the list. Typically, each third-party data source does this independently, sending each list to a separate vendor for additional processing and deployment. However, a third-party list strategy partner—one that has a strong relationship with list vendors—can arrange to have all of the lists delivered to a single secure, third-party data processing facility.

This ensures that merge-purge processes remove duplicates and other undesirable records across *all* lists. For email lists, this saves on costs, as list vendors charge for each contact mailed, even if the contact appears on multiple lists. It also greatly minimizes the likelihood that a single prospect receives multiple contacts and opts out of future communications. Postal and telemarketing lists should undergo the additional process of job title scrubbing—manual quality checks of the data file to ensure that it matches your criteria.

Step 5:

Campaign execution

With the list plan and budgets finalized, the final step of the process is the execution of the marketing campaign. Once the marketing message is deployed and responses are received, you need to generate reports about key metrics—including response rates, click-through rates, and open rates.

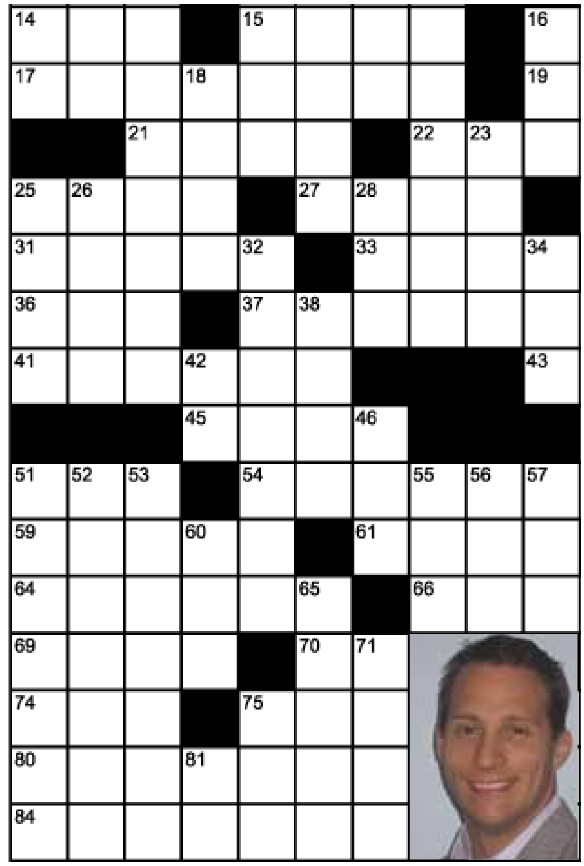
This reporting supports list strategy recalibration, the elimination of underperforming lists, segment adjustments, list expansion, and the development of additional testing strategies. The post-campaign analysis establishes a statistically significant baseline of response for the marketer, which provides actionable goals for follow-up marketing campaigns. You can achieve continued success through a combination of creative strategy, measurement, and ongoing best-in-class program management. TPM

DOWN

18. A transaction
32. Origin of data
53. Article author

ACROSS

17. Potential customer
31. Storage of paperwork
84. Connect



Brian Hession is President of Oceanos. His firm creates metric-based data strategies for demand generation marketing, guided by their vision of List Intelligence.™ Oceanos counts among its clients some of the most recognizable names in the world —from global high tech companies and leading interactive marketing agencies to high-profile consumer businesses.

Brian was named "Most Successful Direct Marketer under 30" by the New England Direct Marketing Association (NEDMA) and an Expert Consultant by MarketingSherpa. In 2007, Inc. *magazine recognized Oceanos as its 362nd fastest growing private in the United States. To learn more about Oceanos, contact Brian at bhession@oceanosinc.com or follow him on Twitter at www.twitter.com/brianhession*

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