SALES, ENTREPRENEURS, AND TIMETABLES

Prof **Yufei Huang** of **Trinity Business School, Trinity College Dublin** and Profs **Onesun Steve Yoo,** and **Bilal Gokpinar** of the **University College London** provide insights for entrepreneurs on effectively spending time to maximise sales.

A BRIEF HISTORY OF TIME

Time has been a subject of human intrigue that spans generations, professions, ages, geographies, and perhaps even the cosmos itself. From the real world where schoolchildren exult at the ring of the last bell, and physicists such as Prof Stephen Hawking who wrote extensively on the subject, to the fantastical world of Harry Potter with Time-Turners in it, time has always been of the utmost essence. So too for entrepreneurs.

This is especially so for those in the field of technology, having worked hard to come-up with new, innovative and better products than those offered by existing providers. These new-age managers need to achieve early success not only to remain flush with funds and thus, afloat but also to make a name for themselves and their offerings in order to attract funding for future growth.

As such, it is equally important for techies to know how to market and sell their products. Especially since they lack resources, don't carry a reputation that opens doors, and are still to forge formal sales processes in their organisations. What's more, they themselves are the only ones motivated towards and capable of attracting potential customers and actually convincing them—that too after considerable effort.

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A TWIST IN THE ZERO-SUM GAME OF SALES

What to do then, when each potential customer – among a list of many – takes up a major chunk of an entrepreneurs' time? After all, even advancements in modern technology do not allow a person to be in two places at once. Complicating the situation even further is the dynamism—exhibited by consumer peer learning and the competition's reaction—of the marketplace.

To answer this question that can help entrepreneurs take better time-allocation decisions, Prof. Yufei Huang from Trinity Business School and fellow researchers Profs. Yoo and Gokpinar of UCL used a mathematical model to study the effect of consumer peer learning – how people decide to buy things based on previous shoppers' decisions to the product; competitors' strategy – how they prevent their customers from straying to the entrepreneur's new rival product (either same product but better quality, or same but with a lower price).

THE MODEL SET

The math is set up in a manner that allows for two sets of consumers—representing different levels of influence and streams of revenue—and for two different sellers—the entrepreneur and the incumbent.

The quality of the products—known for the incumbent and unknown for the entrepreneur—are also factored in since this is the feature that the entrepreneur wishes to base their sales on. To this end, the entrepreneur has to dedicate time and effort to line-up meetings with and educate potential customers. Yet, this does not guarantee any success. Profits of the entrepreneur are reduced to a probability—if the new product is perceived to be better than the incumbent's—given as a function of product quality, time spent, and the associated revenue stream.

The probability in the model also accounts for the incumbent's short-term strategy—whether it be giving more service or additional benefits or a discounted price—to counter the competition posed by the new entrant.

DOUBLE WHAMMY

Consumer peer learning prompts the less influential consumer to buy a product based on the information that a more influential consumer decided to make the purchase. Without this information being available, the former would not buy the novel product. Despite its superiority.

The rationale behind this result, and proven by the model, is that consumer peer learning acts as a form of free advertisement for the entrepreneur, who would do well by investing their time in selling to the more powerful buyer—validating the authenticity and superiority of the entrant—even if that means having to pay for this endorsement.

In another scenario, the researchers show that when established providers have a high tendency to react to new entrants, it is optimal for them to go 'all-in' to retain the customer representing the larger revenue—whatever their clout.

Since it is easier for the veteran to retain a client than it is for the newbie to acquire one, the best thing the new entrepreneur on the block should do is focus on the low-revenue group.

SALES AND MARGINS: TWO SCENARIOS

- Scenario 1: Since it is easier for the veteran to retain a client than it is for the newbie to acquire one, the best thing the new entrepreneur on the block should do is focus on the low-revenue group.

- Scenario 2: However, when these factors are allowed to mix—as they usually will in the real-world—things can get complicated and depend on what each type of consumer group brings to the table. With this in mind, the bottom line of the research is that entrepreneurs should focus a large majority of their time (circa 90%) on influential buyers if the ratio of revenues of the more influential buyer to the less influential buyer is less than 80% or more than 100%.

In the first scenario, the entrepreneur avoids direct competition with the established provider (who will seek more to retain the high-revenue customer) since the influence will be insufficient to offset the stream of monies. This scenario also takes advantage of consumer peer learning.

In the second, the entrepreneur may find it rewarding to confront the existing giant—also targeting the larger and more influential buyer—as the prospect of acquiring a higher revenue and influencing the market makes up for the low probability of sale.

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Moreover, when the revenue ratio of the more influential to the less influential buyer is between 80 to 100%, the old hand will want to take advantage of the former's endorsement effect as the lower value is not alarmingly different. To this end, the entrepreneur should avoid competing with the established provider and spend time on the high-revenue customer. To give further meaning to these numbers, the researchers found that in the absence of consumer peer learning and reaction from the established provider, entrepreneurs should spend more time on the client with the bigger wallet. As intuition would also suggest.

MAKE A MOVE—OR NOT

As such, Profs. Huang, Yoo and Gokpinar provide a fresh approach to new product launch strategy, for existing research predominantly concentrated on new products by established firms – usually resource-rich and drawing from their experience and economies of scale. Their seemingly infinite pockets also help maintain this dominance against upcoming firms, who face an uphill battle.

It is essential for entrepreneurs to understand the nuances at play before taking any decisions. As shown, entrepreneurs should avoid competing with an established provider for a market segment unless it represents both large and influential revenue sources. Entrepreneurs should also keep tabs on established competitors as to whether they'll react upon learning of new entrants.

The study also challenges the idea that entrepreneurs should first target influencers by proving that the best strategy could actually be to not chase those who are generally sought after—and utilise their time more fruitfully by pursuing a relationship with the child who eats lunch alone. ///

KEYS TAKEAWAYS

- Time is of essence to entrepreneurs who need to achieve early success not only to remain flush with funds and thus, afloat but also to make a name for themselves and their offerings in order to attract funding for future growth.
- Entrepreneurs themselves are the only ones motivated towards and capable of attracting potential customers and actually convincing them.
- To help entrepreneurs take better time-allocation decisions, the research team utilises a mathematical model to study the effect of consumer peer learning and incumbent reaction.
- Profits of the entrepreneur are reduced to a probability given as a function of product quality, time spent, the associated revenue stream, and the incumbent's short-term strategy.
- Consumer peer learning induces the less influential consumer to buy the product based on the information that the more influential one decided to make the purchase. Without this information being available, the former would not buy the novel product.
- When incumbents have a high proclivity to react to new entrants, it is optimal for the established firm to go 'all-in' to retain the customer representing the larger revenue.
- Entrepreneurs should thus avoid competing with the incumbent for a market segment unless it represents both large and influential revenue sources. Entrepreneurs should also be knowledgeable whether the incumbents will react upon learning of new entrants.