

# When Small Is Big

Four imperatives for smart marketing to small and medium business



By Ralph Drybrough & Dan Harding

**T**he small and medium business (SMB) market is huge. Almost all of the businesses in the U.S. are in it! But while the opportunity is unlimited, SMB firms also are volatile, nomadic and subject to varied definitions. Thus, our first imperative for achieving greater rewards and reduced risk when selling to this market is:

## 1. Know the Purchasing Dynamics of the Market Segments

While "SMB" is traditional B-school market segment jargon, there are big differences in how marketers should view a 20-employee company versus a four-employee company. Most of the volatility exists in the small business segment, while medium-size businesses are relatively stable and demonstrate a propensity to buy more over time.

The chart (at right) shows dramatically the largest component of the small business market is what we call "micro" businesses, or those with one to four employees. They make up the lion's share of the entire small business segment. The micro business differentiation is essential because these smallest of

firms usually are SOHOs and often part-time businesses. They are low lifetime value prospects because their appetites for products and services are small and their life expectancies are short.

The key takeaway here is that you need to test your offers within buckets of employee size. If you make selects that are too broad, you can easily skew your read of the results and miss opportunities. Or worse, roll out on incorrect assumptions that assert themselves later in sometimes drastically lower response metrics. To simplify the proposition, we sometimes advise clients to avoid marketing to micro businesses altogether, particularly in the early stages of testing.

## 2. Know Who Your Best Prospects Are

If you are a marketing manager, how should you approach the decision that the SMB market is, indeed, a hunting ground of good opportunity? How do you avoid rationales driven by intuition alone? How can you really know, within the huge universe of prospects, where the optimum allocation of your marketing dollars should be made?

Happily, there needn't be much guesswork: You simply profile your existing customers in a large, data-rich universe of business sites and employee names. This is best done by matching your customer list against cooperative business databases or against a compiled business

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### SMB in Context With Total Business Universe

Business Segment	Number of Employees	Number of Sites	% of Total	Contact Names	% of Total
Micro	1 to 4	13,231,562	75%	27,884,651	43%
Small A.	5 to 9	1,943,132	11%	6,886,895	10%
Small B.	10 to 19	1,247,580	7%	5,865,649	9%
Medium	20 to 99	1,089,625	6%	12,797,020	20%
Large	100 plus	207,493	1%	11,788,517	18%
<b>Total</b>		<b>17,719,392</b>		<b>65,222,732</b>	

Source: MerriBize February 2010 Monthly Update

universe. This process analyzes the types and sizes of the businesses that buy your products. It shows your relative penetration of these markets within various employee size ranges. If you share transaction-level data, the analysis points you objectively to the SIC and employee size buckets that historically have given you the best ROI on your marketing dollar.

Armed with this rich data, you can target the prospects who behave like your best customers, minimizing risk and maximizing profitability of your prospecting.

Understanding the true makeup of your existing customers—micro, small, medium and large—is the first step to growing your business profitably, as it allows you to clearly align your investment with varying degrees of opportunity. We are quick to quote the unchallenged law of direct marketing espoused some 40 years ago by direct marketing legend Ed Mayer: "Success in direct marketing is dependent upon 40 percent lists, 40 percent offer and 20 percent everything else."

### 3. Know How to Mix Market Segments With Channels for Maximum Potential

Not every product or service is optimally presented by each of the available channels providing access to SMB firms. But there are enough of them targeting the market that you should test and measure several. The three most effective proactive channel options you should test are:

- direct mail
- e-mail
- telemarketing

We say "proactive" to distinguish from Internet search, which inherently is a passive marketing channel. The three channels discussed here require you to take an action

directed toward your prospects to get a lead or make a sale.

Most successful SMB marketers use each of these proactive channels. The weighting is typically 60 percent direct mail, 20 percent e-mail and 20 percent telemarketing, giving real meaning to the term multichannel marketing. This weighting often is a reflection of relative costs, as postal lists can range from \$50/M to \$150/M, and e-mail lists in the B-to-B sector often run as high as \$350/M. Telemarketing names are twice the price of postal records, plus you have the high personnel costs related to making the calls.

**While a high response rate is thrilling, measured alone it often is prelude to serious failure down the road. We call it the "one and done" syndrome—the first order is the last. As much as 90 percent of responses from SMBs are afflicted by this syndrome.**

In terms of ROI from these channels, many variables are in play. Are you mixing channels with a combination sequence such as mail, e-mail and phone, or phone, mail and phone? Finding the most effective combos and frequencies, with acceptable order costs, is a key to better results.

For example, consider segmenting the micros, smalls and mediums by the number of channels and frequency as follows: Micros receive one mail piece; smalls receive one mail piece with an e-mail follow-up; and mediums receive one mail piece, one e-mail and a phone call.

Other variations on this theme might call for mailing three people at a medium-size company, two at a small and one at a micro. Or seriously consider dropping the micro prospects given their low propensity to repeat purchase.

While many services and products can be sold mixing it up this

way, getting to that understanding of what works best requires testing and retesting with good response analytics to guide the way.

### 4. Know How to Analyze Your Results for Meaningful Data and Successful Rollouts

As always, measurability is the trump card of direct marketing, but getting accurate analytics and intelligent interpretation of the results can be a challenge.

One of the most common traps we see marketers falling into is measuring the success of a campaign solely on the response rate. While a high response rate is thrilling, measured alone it often is prelude to serious failure down the road. We call it the "one and done" syndrome—the first order is the last. As much as 90 percent of responses from SMBs are afflicted by this syndrome. So while a popular offer is bagging great response rates, it is fated to produce minimal lifetime value and a poor

ROI. What to do? Concentrate on measuring average orders, second orders and cross-sell propensity. These are the metrics that allow you to segment and target the highest potential prospects amid a vast universe.

One could write a book about the confounding dynamics of the SMB market, but you get the point: Smart marketing to these companies and their functionaries is a challenge. Lucky for you, there are many proven, systematic approaches you can take to reduce risk and sell more profitably to the SMB markets. Go forth and target well! **II**

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