# Startup Marketing: Leveraging Leverage

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*The resource allocation task of top management has received significant attention from researchers and practitioners alike. Managers are advised to increase allocation efficiency--assign the right resources to the most promising opportunities. Much less attention has been given to the task of resource leverage (Hamel and Prahalad, 1994). Entrepreneurs quickly discover that they cannot match the resources of larger competitors. Because they must do more with less, they seek to leverage their own resources and the resources of others. We use the term "leveraging leverage" to identify entrepreneurial practices that leverage the resources of others.*

## INTRODUCTION

Entrepreneurs learn quickly that to succeed in today's competitive markets, they must do more with less. Successful entrepreneurs adopt several frameworks when pursuing a new venture. Each framework consists of a set of best practices organized around a basic concept or theme. One such framework is what we call “leveraging leverage”-- entrepreneurial practices that leverage the resources of others. Entrepreneurs often hear the saying, "If you want something done right…do it yourself." Our research suggests that for successful startups, there are two important qualifiers: (1) Do it yourself only if you can do it well, and (2) Do it yourself only if you have the bandwidth and energy to do it well. Otherwise, entrepreneurs look to leverage the abilities, skills, resources, networks, and power of others (e.g., Collinson and Shaw, 2001; Gilmore and Carson, 1999; Morris, Schindehutte, and LaForge, 2002). Indeed, one of the distinguishing characteristics of innovative entrepreneurs is their ability to network (Dyer, Gregersen, and Christensen, 2009). These networks of diverse contacts and associations provide resources and abilities that enable the entrepreneur to do more with less (Gilmore and Carson, 1999).

Using field study interviews of successful entrepreneurs, observing successful student startup companies, and reviewing the literature, we identify best practices entrepreneurs use for “leveraging leverage,” that is finding ways to tap into the skills and resources of others. We found that leveraging leverage can be achieved in five fundamental ways: by unleashing the power of product advocates, by making the most of early-adopter customers, by landing an anchor customer, by working with benefactors, and by building an advisory board. These best practices are depicted in Table 1. In the next sections, we present five fundamental ways entrepreneurs leverage resources of others to benefit the entrepreneurial venture.

**TABLE 1**
**LEVERAGING LEVERAGE: BEST PRACTICES**

| Practice | Description |
|---|---|
| 1. Unleash the Power of Product Advocates | Look for people who have significant influence over the target market. They have the ability and credibility to highlight, defend, introduce, and promote the new business and new products. |
| 2. Empower Early-Adopter Customers | Use early-adopter customers, with passion for solving the problem addressed by the new product, to provide financial support to bring the product to maturity. Technology products benefit from the time and money invested by beta testers. Crowd funding resources allow the entrepreneur to get the startup running with early-adopter customers. |
| 3. Land an Anchor Customer | Tap the credibility of anchor customers to attract potential customers and to accelerate product development. Because these customers are established, recognized, and sound, they provide instant credibility for the startup. |
| 4. Work with Benefactors | Ask the question, "Which business partners will benefit when we succeed?" The answer will help identify investors and key strategic partners. These people have a vested interest in the success of the startup. Look up and down the value chain to find benefactors. |
| 5. Build an Advisory Board | Build advisory boards with individuals who have "traveled the road" the startup wants to go down. Startups can leverage the experience, wisdom, creativity, and status of advisory board members to build the business. |

## UNLEASHING THE POWER OF PRODUCT ADVOCATES

Entrepreneurs leverage the resources of product advocates to get the business off the ground and to increase the speed to market. These product advocates have significant influence over the target market. They have the ability and credibility to highlight, defend, introduce, and promote new businesses and new products (Rhoads, Swenson, and Whitlark, 2009). In short, they are brand champions. They may be acquaintances, friends, neighbors, board members, association presidents, celebrities, or industry gurus. Brand champions can open more doors to potential customers in an hour than entrepreneurs can open through two years of cold calling on their own.

In local markets, entrepreneurs tap into local celebrities and community leaders. These brand champions can be in government, television, radio, or simply popular icons in the community. For example, in a particular local market, a startup company leveraged the visibility of a popular radio celebrity and icon for outdoor activities. Any avid outdoors enthusiast was sure to tune in to this local celebrity's radio show and try any product he recommended. Successful startups find that using local brand champions is a good idea when demonstrating proof of concept and building initial sales before scaling the business across a region, throughout the nation, or internationally.

Of course, brand champions with a national or international audience are more powerful than local icons. New products, highlighted on Oprah, Ellen, and Rachael Ray, have quickly achieved massive sales growth. For example, two product designers with personal vision of simplifying parenthood created the product, Puj Tub. The product is a soft, foam, sink insert for bathing infants. The two designers worked tirelessly to distribute the Puj Tub, but not much happened until they contacted Rachael Ray. The uniqueness and odd look of the Puj Tub was perfect for Rachael's "Stump the Rach" segment and her viewers provided the perfect audience for the product. Rachael Ray loved the product and featured it on her show. In addition, Ellen produced a brief segment on the product. Following the work of these brand champions, distribution quickly expanded to 18 countries and sales reached $10 million.

Brand champions help startups at every stage of the new venture. Klymit, a producer of outdoor goods and apparel, earned $1.6 million in venture capital by leveraging the interest of product ideas among community leaders and industry insiders. Scuba diving off the coast of Brazil, the founder of Klymit learned how noble gases, like argon, xenon, and krypton are used as insulators inside dry suits to keep divers warm. Building on that idea, the former snowboard instructor quickly envisioned how the "dry suit" technology could be adapted to insulate winter gear. While insulated clothing is nothing new, using thermostat-valve-controlled linings in clothing to regulate temperature is new. There is no bulk, no layering, just turn the dial up and down. If a skier is cold, add a little argon gas to the jacket lining. If a skier is hot, open the valve and release some argon to cool down. From the outset, Klymit's founder understood how to network and recruit product advocates. His biggest successes have been with a local mayor who wants to make his city the skiing Mecca of the U.S., and who has introduced Klymit to a number of leading outdoor companies and investors. One of those companies is now a primary development partner, and several of those investors helped fund the business. In addition, Klymit was introduced to a seasoned veteran and industry expert, an individual with decades of experience in the outdoor markets, who began assisting the company as a consultant. Klymit featured the industry expert whenever pitching to investors. This connection alone opened a number of previously closed doors. The team also was convinced early on that they could not bring insulation products to market on their own. They decided to identify large, well-funded "benefactor" companies that would benefit from adopting the new approach to insulation and license the technology. Within a year, the company secured letters of intent from three top outdoor brands that expressed great interest in adopting the patented technology for use in jackets, boots, snow pants, sleeping bags, and other products.

## MAKING THE MOST OF EARLY ADOPTERS

Early-adopter customers, with passion for the problem-solving benefits offered by the new product or service, provide initial sales, and the financial support needed to bring the new product to maturity. Technology products benefit from the time and money invested by beta testers. Crowd-funding resources through tools such as Kickstarter, Indiegogo and others now allow startup businesses to get up and running with early-adopter customers. Although sales to early adopters, or innovators, will not sustain a startup for the long run, they will provide financial resources to get the business going and moving in the right direction. Successful entrepreneurs often mine for gold with the early adopters--the customers that will get their startup out of the gate and running!

"Beta test" refers to a stage in the software development and release life cycle. Software products usually have an alpha stage, that is, a stage in which features are added; a beta stage, in which flaws are removed; and a market-ready stage, in which the product is fully groomed and broadly released to potential buyers. The beta version is the first version of a product that gets released outside the business. Beta versions help developers evaluate their products in real-world settings. Beta testers evaluate these beta-version products. Beta testers can be current or prospective customers. In the software industry, beta testers receive the beta version of a product for free or at a "bargain" price.

When experienced entrepreneurs refer to beta testers, they are of course referring to more than just the development of software and to more than just the technical development of a product. Beta testing suggests a process useful for emerging products and has important marketing as well as technical benefits. In an entrepreneurial setting, the three biggest challenges with beta testers are to get them (1) to purchase the product, (2) to use the product, and (3) to provide feedback on the product. Based on our research, overcoming the first challenge, that is, getting beta testers to purchase the product, goes a long way in solving the other two. Consequently, when looking for beta testers to transform into sources of funding, selecting customers with the most compelling reasons to adopt the new product or service is a key success factor. In other words, the pain point must be particularly painful for beta testers or, as an alternative; the need for market leadership must be particularly strong.

Crowdfunding is the newest method for entrepreneurs to build out a new venture, leveraging beta-tester funding. Since beginning in 2009, Kickstarter has funded over 135,000 projects providing over $1 billion in financial support. Kickstarter beta testers donate dollars to receive early versions of products ranging from digital-focusing LED flashlights to emergency fire-starting parachute cord to a handbag organizer for moms.

In addition, early-adopter customers enable the entrepreneur to find the right emotional connection between the product and the customer (Reynolds, Dethloff, and Westberg, 2001). Understanding the salient reasons early-adopter customer love the product or service provides powerful messages that can be used with potential customers (Rhoads, Swenson, and Whitlark, 2014). Communication efforts, such as advertising, personal selling, and social media, can leverage this information with potential customers.

## LANDING AN ANCHOR CUSTOMER

Anchor customers keep the startup business going and give it a platform for growing. Because these customers are established, recognized, and sound, they provide instant credibility for the startup, attract potential customers to the startup, and accelerate the startup's product development. Finding anchor customers must be a top priority. Indeed, Stokes (2000) confirmed the findings of multiple studies that the number one source of new customers for small firms is recommendations from customers, suppliers, or other referral groups.

Consider the experience of Omniture, a business that helps other businesses understand and manage their Internet marketing channels. The company's customer list includes Toyota, Cadillac, Ford, Microsoft, HP, Oracle, VISA, Ameritrade, ADP, Xerox, Siemens, Tyco, HBO, Fox, CBS, Walmart, Mary Kay, eBay, and it goes on. Omniture always had great products and talented employees, but their success story really got started with two anchor customers, Microsoft and eBay. According to the founders, before landing these anchor customers, the Omniture sales cycle was long and painful, approximately nine months. Prospective clients had many questions about Ominiture's financial stability, technology, and service quality. With the anchor customers on board, however, most of the prospective clients' questions were answered with two words: Microsoft and eBay. The sales cycle shrank to a manageable three months. Omniture won anchor customers by "promising the world and then delivering." Many in the business questioned whether Omniture would make money with such a policy, but the company moved forward nonetheless. Ultimately, eBay and Microsoft did produce profits, but more importantly, these anchor customers produced high-margin, quick-turnaround sales opportunities.

The need for anchor customers is nothing new. For example, a local bakery accelerated its business to profitability by providing impossible-to-resist, giant cookies to area restaurants, cafeterias, and catering services. The serendipitous giant-cookie customers became their anchor customers. With the anchors established, the bakery had the time they needed to build a large group of repeat customers and make their brick-and-mortar retail store successful, charging premium prices for their tried-and-true products.

Successful entrepreneurs are careful to select right-sized anchors. Big anchors don't always suit small startups. An important decision point for a startup is whether the potential anchor is more likely to foster a startup business or let it flounder and sink under the weight of their way of doing business. Unfortunately, we have seen far too many examples of the latter rather than the former. A startup the size of a dinghy goes down fast when it takes on an anchor fit for an ocean liner. Every time an entrepreneur walks into our office to announce they have landed a big account with a national retailer such as Costco, Walmart, or Home Depot, we get nervous. Don't get us wrong; these are wonderful companies that provide tremendous value for customers. However, these companies simply are not geared to foster most startups.

One new business signed a contract with a national retailer, but missed the deadline for delivering their product to the appointed distribution center by several hours. The national retailer declined to reschedule a pickup and told the new business to wait another year before trying again. Yet another new business shipped inventory worth hundreds of thousands of dollars to a national retailer notorious for paying vendors slowly. The entrepreneurs, having taken out second mortgages and maxed-out their credit cards, got nervous and tried to pressure the retailer into paying with aggressive, bordering on rude and unprofessional, phone calls and letters. In response, the national retailer returned the entire inventory. The entrepreneurs were then left with lots of debt, lots of inventory, and few prospects for earning any revenue.

## WORKING WITH BENEFACTORS

Experienced entrepreneurs ask the question, "Which business partners will benefit when we succeed?" They know that the answer to this question will help identify investors and key strategic partners. These companies and people have a vested interest in the success of the startup because when the startup succeeds, they succeed.

Products do not stand alone. Products are part of a value chain that extends from components to customers. Understanding the value chain and where the startup fits can be a powerful tool to propel the new business. To find benefactors, entrepreneurs explore the product's value chain. They ask the following questions: Which businesses provide components as inputs to the product? Which businesses use the product as a component for their product? Which retailers sell and service the product or companion products?

DuPont Stainmaster is the world's single bestselling brand of carpet, but not many people know that DuPont does not manufacture carpet. DuPont manufactures the nylon and stain-release formula that other manufacturers and carpet mills process to make carpeting. DuPont found benefactors to transform the carpet industry from a narrow-margin heartbreaker to a high-flying profit maker. DuPont managers fought commodity nylon prices for generations, but then decided to fight back by offering something that every player in the carpet industry wanted most. Every carpet manufacturer and retailer wanted a premium-priced carpet with a brand name that consumers would recognize and trust. Companies in the industry wanted a profitable product that would sell itself. Before Stainmaster, all carpeting looked pretty much the same to consumers. Since all carpeting looked the same, consumers bought on price--bad news for the entire value chain. Premium-priced, high-quality, easily-recognized Stainmaster brand carpet changed all that and consequently found benefactors, along the value chain, willing to promote DuPont ahead of all other brands of carpeting.

Experienced entrepreneurs have found that the same principle works in the world of startups. Ancestry.com, a leading online subscription service for providing genealogical information and collecting family photos, has grown rapidly into one of the Internet's top ten genealogy properties. To accelerate growth, Ancestry.com raised more than $75 million in funding from benefactors. Early on, Ancestry.com looked at the value chain and asked the question, "Which business partners will benefit when we succeed?" The answers the founders came up with were Intel, Compaq, AOL, and Kodak. Intel benefited because family-history buffs want fast computer processes to digest their mountains of digital photos. Compaq benefited because family-history buffs want new computers with lots of hard drive space, up-to-date memory, and Ethernet connections to access and post online genealogical information. AOL benefited by providing a value-added service to its growing base of family-history buff Internet subscribers. Kodak benefited by repositioning itself in the digital photography sector and by building on the traditional strength of family photography. At the time, Ancestry.com increased the demand for Intel, Compaq, AOL, and Kodak products. In addition to capital raised from these investors, Ancestry.com received publicity from their association with these companies. At no cost to Ancestry.com, one national TV spot for Intel prominently featured a shot of the Ancestry.com webpage.

Entrepreneurs seek benefactors that provide support other than funding. Agilix specializes in software programs for Tablet PCs. In this high-tech product category, Agilix needs capital to fund R&D, but also needs access to programming code and computer hardware technology. To address the first need, Agilix approached Franklin Covey, a company focused on personal planning and organizing. Franklin Covey saw Agilix as a means to move forward in the electronic planner space. Agilix obtained funding and Franklin Covey created a winning product. Reviewers refer to Agilix-developed TabletPlanner software as marvelous, brilliant, and empowering. Competing with heavyweights like Microsoft, HP, and Corel, TabletPlanner is one of the top 10 Tablet PC applications. To address needs beyond R&D capital, Agilix approached Microsoft and key computer hardware manufactures. These companies have become strategic partners with Agilix, providing access to key technologies and allowing Agilix to be on the cutting edge of this emerging field. As a result of these benefactor alliances, Agilix became one of two software companies to have their software applications ready for the launch of Windows-based operating systems for Tablet PCs. This window of opportunity provided Agilix with market access and a tremendous amount of publicity.

## BUILDING AN ADVISORY BOARD

A crucial part of a successful startup is to use a well-connected advisory board. An advisory board can extend an entrepreneur’s social network of influence to increase its effectiveness in attracting investors, customers, and top employees. No new venture is too small or too large to benefit from an advisory board. Leveraging advisory board experience, expertise, credibility, and connections is a powerful way to succeed in today’s competitive markets. A startup gains a big boost from building a national or at least a regional reputation. Perhaps one of the best-kept secrets of successful ventures is they know that reputation and experience counts, but that it does not have to be their own reputation and experience. We cannot emphasize enough what we stated earlier about finding and leveraging product advocates. Successful entrepreneurs know that hard work rarely leads to a successful new venture. It is the entrepreneur's smart work and the work, experience, and reputation of others, especially a credible and supportive advisory board, which leads to new-venture success.

Many startups make the mistake of developing their board of directors instead of beginning with an advisory board. Advisory boards have two key advantages over a board of directors. First, advisory boards often receive little or no compensation. Covering business expenses and providing nominal shares or options, such as .05 percent to.10 percent of outstanding shares, are acceptable. Often, advice may be obtained for the price of just asking. Thus, advisory boards can be a low-cost and high-value alternative for startups. Second, advisory board members cannot be sued for their advice because they do not have any fiduciary responsibility to stockholders, as do members of the board of directors. Thus, advisory boards are usually made up of nonpolitical, experienced, and creative professionals who have a genuine interest and sincere desire to see the startup succeed.

Advisory board members can save an entrepreneur years of painful and costly mistakes as described by Lusk and Harrison (2002): "If you're starting a company, find company advisors as soon as possible. The opportunity to run our initial strategies by a seasoned veteran would have saved us time, frustration, and headaches in the early stages."

Advisory board members who are willing to use their own time, influence, and contacts to promote the startup are truly priceless. Successful entrepreneurs look for advisory board members who are motivated to help grow the business because they love the product and love to be associated with up-and-coming new ventures. Furthermore, they look for advisory board members who have walked the path their startup is now treading. Building a connected advisory network is much more effective than setting out to create a unique social network from the ground up.

## DISCUSSION

Identifying people and businesses with the ability, willingness, and clout to help promote an idea or product is the sine qua non of startup marketing. Our research suggests that leveraging leverage, entrepreneurial practices that leverage the resources of others, is a key success factor for entrepreneurs. We believe these five best practices provide a framework that is amenable to systematic evaluation by researchers and purposeful application by entrepreneurs.

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