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What test-marketing?

on 30 April 2000, 22:00



by Niall McKay

The venerable **Procter & Gamble** test-marketed the home dry-cleaning product Dryel on 150,000 households for more than three years before introducing it late last year. Contrast that with how **Drugstore.com** tested the waters: before its launch in February 1999, the online company spent less than a week surveying only about 100 people. Such haste -- or speed, depending on your point of view -- is common when it comes to test-marketing products and services that will be sold online.

In a world of low barriers to entry and competitors poised to quickly jump into a market, e-commerce companies are forced to ignore the traditional business wisdom of testing and retesting products before blitzing the public with marketing campaigns. "We need to act very fast when we find a good idea," says Ted Schlein, a partner in the venture capital firm **Kleiner Perkins Caufield & Byers**, an investor in **America Online**, **Excite**, and **CBS SportsLine**. So for many online companies, the concept of test-marketing is reduced to this: slapping up a Web site and hoping for the best. If it succeeds, it's an e-business. If it fails, it's market research.

SURVEY SAID

In many ways, test-marketing has become a new game on the Internet. Once a company starts the process -- before, during, or after launch -- it never stops. E-tailers post pop-up surveys to gather suggestions from users. Businesses use customer profile databases to troll for new prospects. And companies use tracking and data mining tools from companies like **Personify** (Nasdaq: PSFY proposed) and **Andromedia** to try to turn surfers into buyers.

But in the competitive frenzy of the Web, it can be risky, even disastrous, to dive into the market blind. For one thing, most of the sure-bet retail categories, like books, drugs, and computers, are dominated by one or two market leaders. For another, entrepreneurs need more than a hunch and an HTML wizard to get started. The average e-commerce site takes five months and \$1 million to develop, according to the **Gartner Group**, a technology research firm. Moreover, it is not easy to get the attention of today's surfing public. Companies are spending tens -- sometimes hundreds -- of millions of dollars on marketing to raise their URLs above the dot-com rabble.

Of course, as competition grows fiercer, so does the pressure to move at lightning speed. Once a VC funds a new business category, others follow quickly. **Respond.com**, which links online customers with offline suppliers, was so concerned that VCs and large e-commerce sites would steal its idea that it operated in stealth mode under the name "Emailshopper" during its "soft launch," or trial period. In such a climate, most entrepreneurs would say it's crazy to pause to do research and risk getting beat.

"Web companies tend to shoot first and ask questions later," says Richard Melnicoff, a partner in **Andersen Consulting's** e-commerce line of business. "There's a perception that the cost of experimentation is less than the cost of analysis."

Drugstore.com may be the standard-bearer for the new approach to test-marketing. The company went from conception to launch in just seven months. "We had to do everything in hyperspeed to make sure that we were the first to market," says Erik Moris, Drugstore.com's senior director of communications. "And to be honest, it is hard to find out what people think about a category that never existed before."

Drugstore.com would have risked its position as first to market had it spent time on a massive amount of prelaunch research. On the other hand, the company didn't take a blind plunge. It had its target audience in mind and financing in place but needed to figure out how to lure customers from the neighborhood drugstore to the Web. So the company conducted about a dozen focus groups during the initial design of the site, concentrating on how people perceived their shopping experience at brick-and-mortar drugstores. The surveys revealed that most people hated it. "There wasn't a single brand that people liked, so we decided to position ourselves as an alternative to the offline drugstore." Mr. Moris says.

Further questioning showed that people most disliked the way highly personal items like laxatives were sold. They also found staff unhelpful. The company exploited these dislikes with its first TV commercial, which showed a man in a drugstore telling the clerk that "the train wouldn't leave the station," that there was "a backup on the old Jersey Turnpike." What the man wanted was a laxative; what he got was embarrassment.

Last fall, Drugstore.com commissioned a brand audit and positioning exercise to find out how to establish emotional connections with customers, mainly women. It conducted two-and-a-half-hour focus groups, consisting of about 100 people, in four

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