

UNDERSTANDING YOUR ECOSYSTEM

Learning Objectives

In this chapter, you will learn to

- assess the ecosystem that your business operates in.
- evaluate market trends as they relate to your business concept.
- analyze the various sources of data to determine which will provide you with the greatest insight about your industry.
- understand how entrepreneurs use secondary research to evaluate their business concepts.

INTRODUCTION TO MARKET RESEARCH

No company operates successfully without understanding the business ecosystem that its organization operates within. This chapter focuses on helping you understand the importance of your ecosystem to ensure your concept has merit and is realistic given the needs in the marketplace and your ability to deliver the value customers want. We will discuss the importance of identifying target market needs, trends in the industry that impact your opportunity, and factors like environmental and government regulations plus changes in market channels or business models that influence how you can successfully test the feasibility of your concept.

DEFINING AND UNDERSTANDING THE ECOSYSTEM YOU OPERATE WITHIN

Before you dive headfirst into the proverbial deep end of the pool to launch your business, let's get a scan of the marketplace to see what is happening. You will have a much stronger understanding of the environment that you will be operating in if you begin your research by conducting what is referred to as secondary market research, basically researching data about the market that is one step removed from the firsthand research that you will conduct with potential customers and others in the market. Oftentimes, this is the more easily accessible data available and a good starting point. You will want to understand what this data tells you prior to focusing directly on target customers, which we will discuss in the next chapter.

Secondary market research involves uncovering clues about industry practices and norms and gathering data about target

markets, market size, and the marketplace in general. The word *general* is the key here, since these data will most likely not be specific enough to allow you to make any critical business decisions, resulting in your need to confirm its relevance to your business through firsthand or primary research, which we will discuss in the next chapter. The sources of secondary research, in most cases, are online and offline publications, documents (government and nongovernment), newspapers, magazines, association research, journals, and articles. This type of research might include government studies, chamber of commerce statistics, surveys conducted by trade associations or industry-affiliated organizations, or research carried out by reputable organizations. Since you won't be conducting the research yourself, you want to ensure that the standards the source used to uncover data are top quality. Therefore, ensure that the source, be it a research company or perhaps an industry leader, has a solid reputation. Learn as much as you can about their research methodology and use common sense in terms of determining if this source should be trusted. Otherwise, you can easily be led down the wrong path if you rely heavily on them for early cues about the potential for your business concept since skewed or error-prone data cannot only be quite misleading but might easily take you down the wrong path entirely.

PRIMARY VERSUS SECONDARY DATA SOURCES

Perhaps you are wondering if you still need to conduct primary market research if you do a great job uncovering secondary market research data. The answer is absolutely. While secondary research is valuable, it is critical that you speak with customers and prospects directly since every business is unique. Below are the differences between primary and secondary research sources, highlighting the importance of both to understand your ability to successfully launch a business.

UNDERSTANDING EVOLVING MARKET TRENDS

It is critical that you establish a baseline of knowledge about the markets you anticipate you will operate within before you begin to develop your product or service. This knowledge includes market trends that influence and impact the success of a business. Let's explore one example. Imagine that you've been running an antiques shop in your local town for the past 20 years. Business has always been good, and you depend on a mix of local clientele and out-of-towners who travel to visit your shop. However, in the past several years, you have begun to notice that some of your regular customers are spending more time browsing and less time buying. When they do make a purchase, they're negotiating harder, cutting your profit margin dramatically. You're not sure what's causing these changes, but they are starting to have an enormous impact on your inventory level and the profit that you're generating. You know that you've got to remedy this situation

Table 2.1 Primary vs. Secondary Data Sources

	Primary	Secondary
Source of Data	Conducted by you, your team, or somebody you hired for YOUR specific needs	Conducted by a third party for general needs or the needs of another company (not yours)
Research Methods (More details in Chapter 3)	Surveys, focus groups, ethnographic studies, interviews with YOUR specific market	Can be any of these methods but not necessarily with your specific market
Type of Data Collected	Qualitative and/or Quantitative	Qualitative and/or Quantitative
Relative Cost	More expensive	Less expensive
Relative Time Required to Complete	More time required	Less time to access data
Uniqueness and Relevance	Designed around your company needs, now	Not specific and not always relevant to your company. Content might be outdated
Relevance for Start-Ups	You might have limited or no access to customers or prospects making this harder to complete (but not impossible)	Easier to access since this does not require that you have access to customers or prospects to get a highlighted view of similar needs

quickly, or you won't be in business much longer. As profits continue to plummet, you begin to feel panic set in, and you ask yourself, "What is happening, and what could I have done to prevent this situation?" Pause for a minute and consider what type of data you need to uncover to understand why these changes are occurring in your business. What type of research and what sources would you use to understand market trends that impact you?

You might have heard the phrase, Hindsight is 20/20. While it's a bit cliché, it's an important truth: You can always see the past better than you can see the future. However, if this antiques shop owner had paid more attention to the decrease in local demand and the softening of prices a few years ago, she might have realized that these changes subtly began to occur around the same time that the Internet became more easily accessible and her older clientele became more comfortable using the web to make purchases. The decrease in demand and prices is strongly related to the availability of antiques online (creating global competition at a very local level).

If you, as an antiques shop owner, had seen the trend earlier, you might have had the opportunity to react by changing your inventory levels or the products you offered (perhaps by offering heavier pieces of furniture that are expensive to ship, deterring buyers

from purchasing from nonlocal sources). You could have even decided to go online to expand your customer base. Regardless of the actions you would have taken, you'll probably agree that it's always better to be prepared with information about external forces such as supply, channel access, competition, or changes in interest in certain products that can affect your business, from a positive as well as a negative perspective. This will allow you to be proactive and make more informed decisions, rather than being forced to scramble to react to market changes after they have already had a negative impact on your revenue stream.

You don't have to look too far to witness how the web and other powerful distribution channels have upended business models and put successful companies out of business while creating opportunities for new market entrants. Let's look at two companies in the video rental space: Blockbuster and Netflix, as a primary example. Blockbuster, a brick-and-mortar retailer that launched in 1985, was known for its video rental stores. At their peak in 2004, they had over 84,000 employees and operated more than 9,000 stores. By 2010, it filed for bankruptcy, and in July 2018, its last two stores (in Alaska) finally shuttered their doors to customers (Collective Campus, 2017). Blockbuster failed to seize the massive wave of changes going on in consumer demands for convenience and immediate, on-demand access to everything, ranging from shoes and clothing to pizza and ah, yes, videos. Their customers no longer wanted to go to a store, once perceived as convenient, to rent a video. However, Netflix, an up-and-coming player in the video rental space launched in 1998 by delivering DVDs by mail, later evolving to streaming videos. Netflix continued to transform its business model to meet customer demands and flourished, claiming over 137 million worldwide subscribers by the end of 2018 (Statista, 2018). Lesson learned: You must not only be aware of changes in consumer demand but you must also be able to change your business model, when necessary, to remain relevant and in business. That lesson has been learned by numerous businesses, especially brick-and-mortar stores over the years that were not able to change their business model to address changes and no longer exist. In this category are stores like Kodak, Woolworth, Borders Book, and Toys "R" Us.

DEFINING YOUR MARKET

Before we present sources of data, let's talk about the various metrics and specific type of data that you will want to secure so you can analyze market conditions to inform your decisions moving forward. These include the following:

1. Defining size of the market
2. Strength of players in the market (we will cover more about competitors in Chapter 5)
3. Trends and regulations in the industry

It's important to understand how paradigm changes or shifts in market channels or business models such as the growth in shared economy models influence how customers think about accessing products and services. These shifts can provide a variety of opportunities for a new business. Common examples of this include renting your home à la Airbnb or ride sharing models like Uber. However, these models can be seen on college campuses where students are launching businesses to share bikes, their own cars, and even sports equipment or other items lying around their dorm rooms. This is an exciting area to explore since it requires understanding needs within specific communities and figuring out how you can capture a share of the market.

BUILDING YOUR BUSINESS MODEL

Let's revisit the Business Model Canvas framework that we discussed in the first chapter and focus on the Customer Segments analysis required to understand your business model. The first questions about the "who" are important to understand and will be addressed in the next chapter as we get closer to defining your specific target customer through primary research. However, as we do a deep dive in this chapter into the overall marketplace that you will be operating within, you will want to ask certain questions:

- Who makes up the potential and target audience that you are addressing and creating value for?
 - What are their key defining characteristics—that is, demographics, behaviors?
 - What is their compelling problem, need, or pain?
 - Which segment(s) are most attractive? Why?
 - Do your target customers care about how you create or offer economic as well as social value?
- How large is this market?
 - How many people or companies or organizations are seeking the solution you offer?
 - What evidence do you have to support this estimate?
 - What assumptions did you make? How might you confirm them?
 - How easy is it to target and access the market?

Keep these questions in mind, since a primary activity for this chapter involves you using the sources of data, described next, to answer these questions.

SOURCES OF DATA AND TRENDS

Below is a list of sources of data that you should consider accessing through your school library, business library, or online. While this list is not exhaustive in any manner, it is a good starter for securing data that will help you address questions about industry dynamics. This will allow you to focus your idea as you attempt to nurture it into a feasible business based on current and evolving market conditions.

1. Key associations and publications in your industry (more on this below)
2. Websites and social media pages of companies that belong to these associations
3. Surveys or research these associations conduct
4. Value proposition/messaging from companies affiliated with the industry
5. Annual industry statistics
6. Conferences well respected by the industry
7. Hot topics and trends being discussed at conferences
8. Speaker presentations and white papers from the conference sites
9. Consulting and research firms respected in the industry
10. School library's online business and industry databases that are a great resource
11. Newspapers, reports, journals, magazines, books

In addition to the industry-specific associations, publications, newsletters, and consulting and research firms' reports, a slew of organizations (public and private) offer general business data. Below is a starter list of general business resources and publications that you might review, especially if you are trying to understand the U.S. market. If your scope is outside the United States, the data might be more challenging to secure, but with a solid effort, you can often locate what you need. When students or business people are searching for trends, oftentimes a good starting point is to look at the data for the U.S. market since it's more readily available for most industry sectors. Then extrapolate those findings and apply to your country. It's not a perfect science, but is a good starting point and is better than simply guessing.

- Annual Reports Service and OrderAnnualReports.com (www.orderannualreports.com/)
- Bureau of Labor Statistics (www.bls.gov)

- The Business Technology Network (www.brint.com)
- CEO Express (www.ceoexpress.com)
- Edgar Online (www.edgar-online.com)
- Global Entrepreneurship Monitor: GEM (www.gemconsortium.org/)
- Nationwide Public Record Search (www.searchsystems.net)
- Kauffman Center for Entrepreneurial Leadership (www.entrepreneurship.org)
- Service Corp. of Retired Executives (SCORE) (www.score.org)
- Small Business Administration (SBA) (www.sba.gov)
- Thomas Register of American Manufacturers (www.thomasnet.com)
- U.S. Census Bureau (www.census.gov)
- U.S. Dept. of Commerce Country Commercial Guides (www.export.gov)
- U.S. Dept. of State Country Reports (<https://www.state.gov/misc/list/index.htm>)
- U.S. Government's official web portal (firstgov.gov)
- *Wall Street Journal* small business marketing website: (www.wsj.com/news/business/small-business-marketing)
- World Economic Forum Reports (<https://www.weforum.org/reports>)

In addition to researching industries online, you should also try to find out which companies are actively involved with research or provide consulting or advisory services within these industries. For example, if you're in the technology field, you should definitely review what major consulting/research firms like Gartner and Forrester Research have to say about the industry and the trends that they are seeing. Keep in mind that the information gleaned by these firms might be expensive to purchase. It's important to know that many businesses like these produce press releases or reports that highlight important findings or statistics about the industry, based on surveys or research that they conducted. Since their goal is to sell their reports, they want to call attention to the firm's latest report by providing interesting "teaser" facts. These facts may be enough to help you identify key trends and information about important businesses and partnerships in the market. But depending on the price of the report, it could be a worthwhile purchase and may be considerably less expensive than hiring a market research firm or spending hundreds of hours trying to obtain the same data on your own.

TOOLS FOR UNDERSTANDING TRENDS

There are also numerous online tools that will help you identify trends in the market. Below are some that you might want to consider using or at least checking out.

1. Google Trends (<https://trends.google.com/trends/>): Type in a word and see what it reveals. For example, if you type in healthy drinks—you can see interest by region, related queries (i.e., energy drinks, healthy food), related topics (drink, health, Starbucks). You can even compare this to related topics like healthy food.
2. Serpstat (<https://serpstat.com.>): This site provides you with a plethora of information about websites that you don't manage including search volume, competition, cost per click, and so on. For example, if you type in a specific website or a topic such as dog biscuits, you would be able to see things like organic keywords, total number of possible versions of a given keyword (dog biscuit recipes, homemade dog biscuits), paid keywords (peanut butter dog biscuits, biscuits for dogs), keyword trends over time, competitors in organic search, ratio of the number of keywords to the popularity of the keyword that the top 20 search results yield. There are even examples of ads (<https://www.milkbone.com/products>).
3. Hubspot's Website Grader (<https://website.grader.com/>). The site is a free online tool that grades any website against key metrics like performance, mobile readiness, SEO, and security. You can see how companies in the industry you are interested in are performing in terms of attracting customers to their sites.
4. SEMrush (<https://www.semrush.com>): This site allows you to view images of organic vs. paid search, CPC distribution, trends over time, phrase match and related keywords, organic search results and ads. Once again, this is an opportunity for you to see how other companies are performing in sectors that interest you.

THE VALUE OF INDUSTRY ASSOCIATION DATA

To better understand the scope of a market that interests you, you might begin looking at the key associations in the industry and the companies that belong to these associations. Questions that you should try to answer include these:

1. For each association, what are the most active companies on the association site? (You can tell this from their support of the site or perhaps their appearance at industry conferences.)

2. Does the association conduct an annual survey of its members or the industry? If yes, can you get access to it? What information does it tell you about the industry that will impact your business concept?
3. Is anybody advertising on the industry or association web site? If yes, who are they, what is their value proposition and how are they differentiating their value?
4. What annual industry statistics can you find? What trends does the data reveal?
5. Are there annual surveys about the industry that you can secure?
6. What conferences or events are important to the industry? Can you attend any of these? What are the hot topics being discussed?
7. Can you download presentations (YouTube or Brainshark) or white papers from the conference sites that will give you a better understanding of the market?
8. Which companies are sponsoring these conferences? Visit their websites to learn more about them and their role in the industry.
9. Who are the top (3 or 4) competitors in the industry? How do they position themselves in the industry in terms of their value to their customers?
10. What consulting and research firms are respected in the industry? What information do they reveal that is important?
11. Are there any meet-ups happening that would allow you to network with individuals in the sector?

MARKET SIZE

Next, we want to understand how large the market is. One simple approach to doing this is called a TAM-SAM-SOM approach. This begins with defining the Total Available Market (TAM). TAM is calculated by identifying the total revenue or sales within the market in the last year or projections in the near future (next 2 to 3 years). You will find this data in the research sources described previously in the chapter. For example, if you are hoping to launch a dog biscuit company in a small town in New Jersey, then you will might begin by understanding the size of the market in terms of sales for the state. Don't state how large the market is in the United States because this provides you with an inflated view of the size of YOUR market. Next you will want to look at your Serviceable Available Market (SAM). SAM refers to the geographic region or perhaps

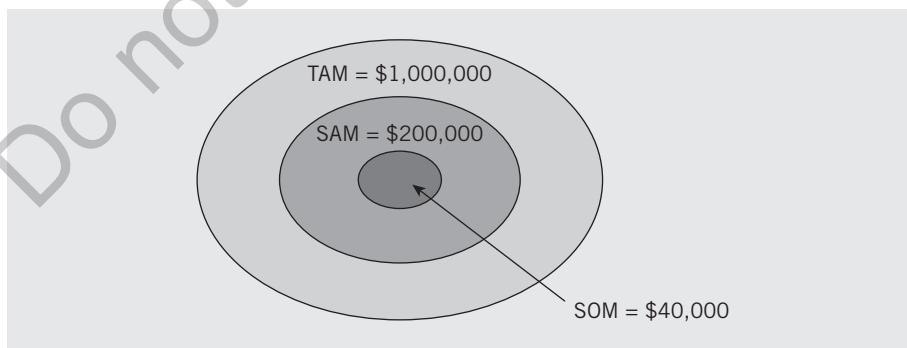
a segment of the market that you will have access to. Your SAM might be a range of 50 miles from your home. Perhaps that is 20% of the state. Now your SAM is $20\% \times \text{TAM}$. Finally, you want to calculate your Share of the Market (SOM) assuming that there are others in the market and you will not likely have 100% of the market. You are confident that you can capture 20% of the serviceable market.

Let's walk through this example using the same concept of launching a dog biscuit company (these numbers do not represent actual figures, so if you're really interested in launching a dog biscuit company in New Jersey, please make sure you do your own research).

1. Dog biscuit sales in the United States in 2018 = \$50,000,000
2. TAM: Dog biscuit sales in New Jersey in 2018 = \$1,000,000
3. SAM: Dog biscuit sales in your target reach in 2018 ($\text{TAM} \times 20\%$) = \$200,000
4. SOM: You plan to capture 20% of the market (TAM) = \$40,000

We hope you can now see how important it is to get a clear picture of the actual market size. If you had looked at dog biscuit sales in the United States and believed that the market size was \$50 million and stopped your analysis with this figure, you would not have realized that in your world, the actual market size is a more realistic \$40,000. If we take this one step further and decide that you are going to launch this only on your college campus and sell to students who have dogs at home, your market size will be even smaller. Having a small market size is not necessarily a negative since it gives you an opportunity to learn about the market and customer needs and when you are ready, expand beyond the reaches of your dorm or local community.

Figure 2.1 Total Available Market, Serviceable Available Market, and Share of the Market



ACTION CREATES TRIUMPHS (ACT)

Your Market

Before you go any further with the concept you are thinking about, it's important to ensure you understand the market forces that will impact your ability to succeed. Remember, ideas without customers and a market that provides an opportunity to succeed are not businesses; they are merely dreams. No matter how great your idea may seem to be in your mind, it cannot survive without a business environment that demonstrates a need for new solutions, like the one you are considering. Please address the questions below that will fit into the Business Model Canvas that you are designing for your concept. You should begin by selecting a few of the data sources described so far in this chapter. Then, completing the research required, address the following questions:

- Who makes up the potential and target audience that you are addressing and creating value for?
 - What are their key defining characteristics, that is, demographics, behaviors?
 - What is their compelling problem, need, or pain?
 - Which segment(s) are most attractive? Why?
 - Do your target customers care about how you create or offer economic as well as social value?
- How large is this market?
 - How many people or companies or organizations are seeking the solution you offer? Basically, what is your Share of the Market (SOM)?
 - What evidence do you have to support this estimate?
 - What assumptions did you make? How might you confirm them?
 - How easy is it to target and access the market? (You may not yet be able to address this, but it's worth beginning to think about.)

YOUR BUSINESS RELATIVE TO OTHERS IN THE INDUSTRY: SWOT ANALYSIS

As we have been discussing, understanding the market needs and condition that you will operate in is critical to your success. Even the best business ideas will not flourish if several conditions are not met: (1) there must be a proven need in the market, (2) there must be an ability to pay for the solution you offer, and (3) market conditions must allow for you to access your market. Those are some of the key external conditions that must be met. However, there is an internal factor that cannot be underscored enough, and that is the ability to organize your own resources and partners to deliver on the value that your target market requires. Therefore, even if all market conditions are met, if your

company is not positioned to support this and scale, your success will be limited even if you can achieve early success.

Therefore, a critical step in completing your market and industry research is to determine how you align or stand out from others in the industry. You should examine your company and teams' core competencies and strengths and your overall competitive position using a popular business framework called SWOT Analysis: Strengths, Weaknesses, Opportunities, and Threats. Strengths and weaknesses refer to traits like flexibility, a special expertise or lack thereof, and other internal factors that you have some level of control over. On the other hand, opportunities and threats are environmental factors like energy prices, changes in consumer preferences, rising interest rates, and other external events that are much more difficult, or even impossible, to control (but clearly impact your ability to succeed in the market).

Strengths

Strengths, also known as core competencies, are areas where your organization stands out from others in your industry. These can include technology (special code or patents that only you possess), marketing/sales savvy, personnel, experience, or cost advantages. When you're trying to figure out what your strengths are (and those of your entire team), some questions you might want to ask yourself include the following:

- What unique advantages does or will my company have in the marketplace or industry?
- What does or will my company do very well?
- What does or will my company do that surpasses our competitors?
- Do we have access to resources, distribution channels, or technology that is unique to my company?
- How do or will individuals within the organization contribute to our success?
- What expertise or unique experience do I or my employees have that will have a positive impact on our business growth?
- What other strengths does my company have that provide it with a unique advantage in the market?

The strengths that you and your company have are relative to the entire industry. Therefore, if all of your competitors have the same cost position or access to the same distribution channels, then you cannot consider that a strength; it simply becomes a minimum requirement. A good example of this is in the banking industry, where exceptional service is critical to keeping customers (especially as banks find it harder to compete on interest rates alone). Using a customer relationship management (CRM)

system to communicate with your clients is a nice-to-have asset, but it is not necessarily something that would be considered a strength, since it has become a minimum requirement rather than an exception for most banks. However, if a bank does something different with the software that allows it to better serve its customers, then the use of this specialized program is turned into a strength or core competency.

Weaknesses

Obviously, weaknesses are areas in which your company fails to excel or lacks expertise altogether. Therefore, not possessing some of the qualities noted in the strength category can be considered weaknesses if your major competitors have these abilities. But if your competitors don't have these skills either (perhaps everybody's poor at managing changing customer demand), then this may not be a mortal weakness—yet. Important questions to ask yourself to determine your weaknesses include the following:

- Relative to our competitors, what areas are we simply not proficient at?
- Do we lack experience in a vital area such as sales, or do we lack the ability to develop new products that will contribute to our growth?
- Do we have a shortage of people with the right experience, skills, or expertise?
- How much knowledge do we possess about certain markets or industry sectors that are relevant to our business?
- Do we lack technical skills or need improvements in our ability to operate smoothly?
- Are we experiencing production capacity problems because our systems are not working at peak performance?
- Are our manufacturing/production costs too high, yet we are not able to lower them in the near future?
- What other areas need improvement?

It's far easier to admit your strengths, but a candid appraisal of your weaknesses is important. If you have colleagues or friends whom you trust, ask them if they think your assessment is accurate. If you have employees, their input is vital, too. If you personally are not good at selling, don't delude yourself into believing that you can overcome this simply by being passionately committed to your business. Talking to others may help you see that your competition might be just as passionate—and have a talented sales force as well. However, if everybody in the industry is weak in a certain area (such as limited distribution channels), you may see that this may not be a major weakness *yet*, since it puts you on a level playing field with your competitors. Once you

have clearly defined your areas of weakness, then you will be in a better position to determine if they can be turned into strengths.

Opportunities

It's always fun to daydream about business opportunities—a new location, a possible new product line, an expansion through acquisition, or discovering an underserved market.

Opportunities are external factors in the marketplace that you do not control yet that present you with the ability to grow your business if you position yourself correctly. Opportunities can include strong demand for certain products, lack of satisfaction with available product options, or limited competition. Below are some questions to help you identify opportunities in your market. However, do not rely on your gut instinct to answer these. You will need to complete market research to understand and clearly define this.

- Is there strong customer demand in the market for our products or services and the value that we provide to our customers?
- Is there a lack of satisfaction with the products that are currently offered or available?
- Is our competition limited or weak in certain areas that we have not yet addressed or attacked with full effort?
- Is there a lack of competitors or substitute products or services that currently satisfy customers' needs?
- Are there readily available or easily accessed distribution channels (e.g., the Internet or the opening of a new trade channel) that we can take advantage of?
- Are there opportunities to easily enter a new or related market?
- What other opportunities are there in the market that will help me launch my business?
- Are switching costs (perceived or real) low?

Threats

By threats, we refer to conditions in the marketplace that make entry or growth less desirable, more difficult, or even risky, including competitors, regulation, tax law changes, new technologies, cheaper overseas labor, and litigation. Threats include obstacles that stand in the way of your company's achieving success because you lack control over them. An example of a threat that is being faced by many businesses today is the movement of

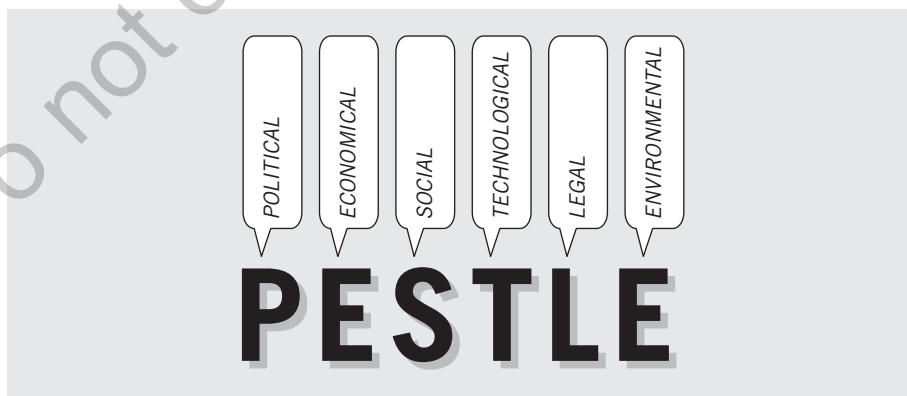
production facilities to low-cost countries like India and China. If your competitors now begin to benefit from significantly lower production costs, this could have a major impact on your organization, your pricing scenario, and the industry as a whole. To identify threats to your business, begin by asking yourself questions like these:

- Do barriers to entry, such as limited distribution channels or the closure of certain channels for importing or exporting products, affect my business?
- How much competition is there in the market?
- Are there a lot of substitute products, making it difficult for me to differentiate my value?
- Is my company affected by an increase in the price of supplies or lack of availability of certain supplies required to develop or deliver my product?
- Does inertia affect my business (i.e., people are “happy enough” with the present solution to their problem)?
- What regulations affect my business, now and in the future?
- Have there been any changes in customers’ interest in my product or service?

PESTLE ANALYSIS

In order to ensure you have a complete understanding of the environment that you plan to operate within, another tool that you can use to understanding the OT portion of the SWOT (Opportunities and Threats) is called a PESTLE Analysis (2019).

Figure 2.2 PESTLE



These are factors that you cannot control but need to be aware of to understand your ability to launch and grow your business in a region or within a sector of the market. PESTLE is an acronym that represents the following:

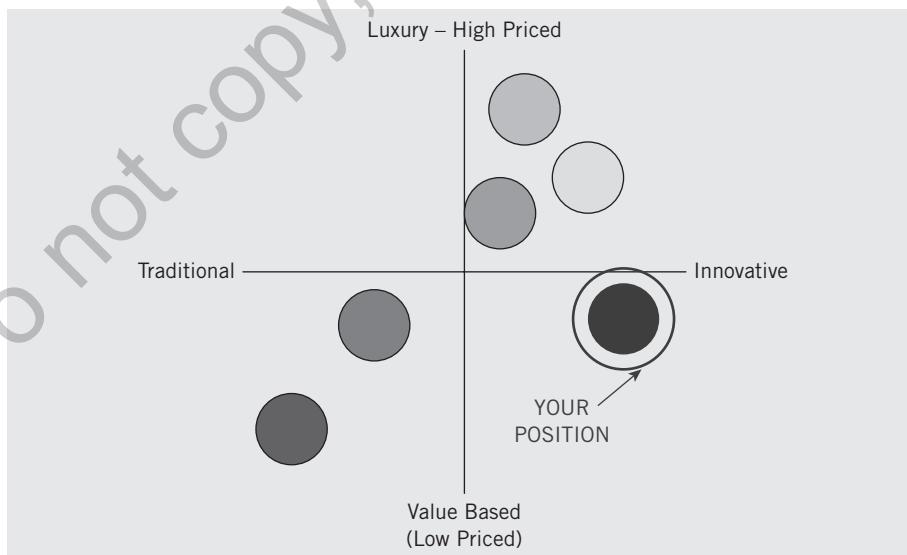
- **P: Political**—These include governmental policies such as taxes, tariffs, and trade that impact your ability to conduct business in a region and to be profitable. Areas to consider are government stability, regulation as it relates to competition, import-export regulations, political committees, freedom of the press, and deregulation.
- **E: Economic**—These include economic factors that you need to be aware of, such as inflation rates, interest rates, and foreign exchange rates. Areas to consider are growth rate, availability of credit, GDP, stock market trends, and price fluctuations.
- **S: Social**—These factors focus on the cultural mindset of a region or an industry. This might include demographics like gender and age, sociocultural beliefs and practices. Areas to consider are social classes, diversity and racial equity, attitudes toward a variety of business-relevant factors, and lifestyle factors.
- **T: Technological**—This factor focuses on the impact of technological advances or lack thereof in a region or within a sector. Areas to consider are technology R&D, automation, innovation, Internet infrastructures, and technology use and awareness.
- **L: Legal**—Legal factors focus on the laws and legislature in a region or market that impact your company's ability to grow. Areas to consider are laws that focus on discrimination, antitrust, employment, consumer protection, education, and copyright and patent protection.
- **E: Environmental**—This factor relates to the geography and environmental issues that impact your business. Areas to consider are recycling, renewable energy, attitudes about green products, natural disasters, pollution, and climate change.

As you study the impact of these factors on your business and build them into your SWOT Analysis, remember that not all of these factors will impact your ability to grow. However, it's important to understand which areas you need to think about, now and as situations change and evolve over time. This will help ensure you acknowledge the role that external (OT) factors play since you will likely have very limited or no control over them and will need to align your team's strengths to address these factors.

POSITIONING MAP

Now that you're familiar with the SWOT Analysis, let's compile the research that you conducted, create a SWOT Analysis for your company, and then create a visual of your position in the market. This is called a Positioning Map (it is also referred to as a Perceptual Map). Basically, the goal of this type of visual demonstration is to show how you will be positioned in the market relative to two factors that are important to stakeholders. It could be factors like price, quality, innovation, performance, customer service, or something else that is valued by your potential customers. This is a good way to not only view your potential competitors but to also identify your brand distinction. Here's an example to get you started. You decide that you want to create a sneaker that has innovative features such as the ability to be designed to contour to your feet, power laces, special wicking material to keep wearers dry even in the pouring rain and really easy to keep clear with special dirt protection woven into the fabric. You look at the price points of competitors and realize that even at the luxury/high end of the price, nobody is offering anything truly innovative. You also see that the more traditional sneakers are priced lower, what we call *value priced*. Perhaps there's a gap in the market for you to create a truly more innovative product but also price it below the luxury brands. Obviously, you will need to complete a significant amount of research to determine customer needs and values (e.g., will perception of the value be lowered if you price it too low?), but this visual has given you enough data to feel confident that there might be an opportunity,

Figure 2.3 Positioning Map



and you are ready to explore that through secondary research, as discussed in this chapter, as well as primary research, which we will discuss in the next chapter.

Now, it's your turn. Before you continue, select two factors (examples include price and ability to innovate) that are important to your customers and identify the other players in the market to see what your value proposition needs to align with the needs of the market to be unique.

ACTION CREATES TRIUMPHS (ACT)

Country Entrepreneurship Opportunity Challenge

Next, we'd like you to develop a solid understanding of the challenges and opportunities individuals face in launching a business in different countries around the world. This could be countries or regions that you are familiar with or ones that you are not. You will complete this project in teams of two to five people with the goal of analyzing two different countries.

As you have learned through the discussions in this book, entrepreneurs don't wait for perfect or ideal conditions to start a business. They learn to navigate the landscape and leverage the positives (opportunities) while overcoming barriers (threats) using their strengths and figuring out ways to address their weaknesses in order to make their entrepreneurial vision a reality. As you select the two countries, keep in mind the fact that some countries may seem more attractive than others but all have constraints that you will need to address.

Your Challenge

Your team has launched a consulting firm that specializes in helping entrepreneurs start businesses in countries around the world. Congratulations! You've landed your first client, Amanda Wingate, a seasoned entrepreneur who graduated from your school 15 years ago. She cares deeply about the environment

and has started multiple businesses in retail, manufacturing, and health services. She cares deeply about giving back to society and wants to ensure that her next company supports a healthy and diverse work environment. Amanda has just returned from her first visit to two different countries, and she is inspired to start a business in ONE of the two. However, she is having a hard time deciding which will allow her to further her values of creating economic as well as social value without harming the environment.

Your job is to thoroughly research each country and provide recommendations to her in terms of what she needs to consider to start a business in each of these countries. You do not need to tell her which country your research shows will meet her criteria. You simply need to complete a solid analysis of both opportunities as well as explain the challenges that she will face, allowing her to select the country that is right for her.

Sources of Country Data

You must use published, credible sources in your research, and we encourage you to interview experts from the countries, when possible. ONE of your primary research sources must be the Global Entrepreneurship Monitor (GEM) Report, a leading study of entrepreneurship around the world. It includes 18+ years of data compiled

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through 200,000+ interviews a year in over 100 economies. The GEM Report studies the entrepreneurial behavior and attitudes of individuals in each country and analyzes how the national context impacts entrepreneurship opportunities and challenges. GEM began in 1999 as a joint project between Babson College (United States) and London Business School (England). The latest edition of the report must be used and can be found online at <https://www.gemconsortium.org/report>. You can also use the appropriate National or Special Topics Report, if they are relevant.

In addition to the GEM Report, you must use at least two other reliable sources of data, remembering to cite your sources in your Endnotes. Your school university will likely have a variety of sources you can use. We recommend you ask your librarian about some of the following reports:

- BMI Research: Country risk, industry reports, and company coverage in global markets; includes news, reports, and data
 - EIU.com—Economist Intelligence Unit: Profiles of countries' finance sector and detailed reports about all aspects of doing business in a country
 - Emerging Markets Information Service: News, company and industry information, and financial and economic data for emerging markets/countries
 - Continuum Economics (formerly Roubini Global Economics): Useful for understanding the global economy and for tracking the impact of political and economic policies in various countries
 - Euromonitor Passport: Find international market intelligence, including economic statistics, on industries, countries, and consumers
- Global Competitiveness Report (World Economic Forum)
 - U.S. Dept. of Commerce Country Commercial Guides: Guides cover leading sectors, trade regulations, market research

Country Data to Analyze

In your research, you must consider the following for each country:

1. What is the environment like for entrepreneurship?
2. What are some key characteristics of entrepreneurship in each country? In what ways is entrepreneurship in these countries distinct from that in other countries?
3. What are the challenges of doing business in these countries as it relates to the country's unique cultural, social, economic, and environmental practices?
4. How easy is it to get a business started? What are the constraints to starting a business?
5. What factors are most critical for success?
6. What type(s) of businesses might be feasible?
7. How do self-perceptions and attitudes about entrepreneurship in each country impact the opportunity to launch a business?
8. What considerations are important for an expat (foreign) entrepreneur starting a business in this country?

9. What actions would you recommend an entrepreneur take to increase his or her chances of success in each country?
10. Other questions relevant to each country's unique circumstances to support (or not support) entrepreneurship

You can select countries with which you are familiar (perhaps the countries you call home),

or you can select other countries that interest you. Please make sure you review the GEM report before commencing the project to ensure the countries you have selected are part of the report. Your deliverable will consist of one report (not two individual reports). This should be a well-written report, 10 pages, double-spaced, using 11-point Times New Roman font. You will be able to include an additional three pages of exhibits, graphs, and charts that support your findings. This should be included in the appendix that follows the main body of the report.

VIEW FROM THE TRENCHES

Marabots Technology Corporation

Next, let's turn to a fictional company, Marabots, a small growing firm that entered the underwater drone market as it was in the process of evolving, providing the company with a mix of challenges. On the positive side, it had the ability to shape the direction of the industry as it grew the business but, as an early entry into the market, it also faced the challenge of ensuring its solution wasn't too early or not the right fit for a market that was rapidly evolving.

Marabots manufactures commercial-grade, portable underwater vehicles, basically unmanned underwater drones from a small office on the east coast of the United States. The company's focus is Business-to-Business (B2B) with a strong track record in serving the marine and military markets. Its vehicles are priced to be more affordable than other inspection/observation class Remotely Operated Underwater Vehicles (ROVs). It is proud of the fact that its vehicles are simple to use yet powerful enough

to accomplish complex missions. It positions itself as a company that transforms technologies, previously used below the water, into products with aerial (above-the-water) functions.

Its portfolio of products included ROVs, a hybrid vehicle (a mixture of autonomous and remote) underwater vehicles (AUVs), and underwater camera systems utilized in commercial, educational, industrial, government, military, and recreational applications. Its goal is to help anybody who has an interest in exploring what is beneath the water.

Marabots has solid sales success and market penetration in the B2B space, but as they looked to expand its suite of product offerings, it has decided to explore the B2C (Business to Consumer) market with a product offered at a relatively low price point. The question it needs to address before going into full product development mode is "Is there a market for an underwater drone in the \$1,000 price-point range?"

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To address this opportunity, Marabots decides to conduct industry research to better understand need, distribution, and willingness to pay for a lower priced B2C product. It doesn't want to simply "build it" and hope that customers "will come." It also wants to understand the potential for cannibalization, basically creating a sales problem for its higher priced market position by offering a significantly lower priced ROV with fewer features.

The company hires a marketing consultant who brings two of his undergraduate student interns to work with him on the project. They begin the initiative by outlining their project goals:

- ✓ Identify growth sectors and opportunities for recreational (consumer-facing) products around the \$1,000 price point.
- ✓ Understand competitive forces that impact their business's opportunity for growth within the recreational market.
- ✓ Understand how competition, market trends, climate change, environmental concerns, and the economy impact its business decisions as well as its growth opportunities, both locally and globally.
- ✓ Define the following about customers:
 - Understand how they're finding solutions or products to meet their current needs (e.g., safety, exploration).
 - Define which products are perceived as "need-to-have products" in the relevant sectors.
 - Determine what criteria are used during the purchasing process (e.g., price, features, access).

- Recognize where any challenges may reside in converting prospects to paying customers and how price impacts purchasing decisions.
- Identify the differences, as well as similarities, between the decision-making process for various buyers (e.g., end users, marine shops, marine safety officials).

The student interns, directed by their boss, begin to conduct secondary market research using online business sources and reference material from a list similar to the one discussed earlier in this chapter. They decide to create very specific research questions to guide them as they work toward understanding the larger strategic questions outlined for the project:

1. What are the trends in the market?
 - a. Has an interest in ROVs and drones grown, stayed the same, or declined?
 - i. What proof exists?
 - ii. What factors have impacted this (e.g., environment, economy, green trend, climate change)?
 - b. Has there been similar or opposite shifts in trends for other types of remotely operated vehicles?
2. How is the market size assessed?
 - a. How large is this market?
 - i. How many people or companies/organizations in the industry?
 - ii. What evidence exists to support this estimate?
 - iii. What assumptions were made, if any? How might you confirm them?

- iv. How easy is it to target the market?
- b. What are the ROV and drone markets?
 - i. What is market share of ROVs or drones by country?
 - ii. What is market share of ROVs or drones by brand?
 - iii. Are there one or two dominant brands or a lot of small brands?
 - iv. What is market share of ROVs or drones by price point?
 - < \$500, \$500–\$1000, \$1000–\$2000, > \$2000
- 3. How do consumers make buying decisions in this market?
 - a. Who makes up the potential and target audience that they are addressing?
 - i. What are their key defining characteristics, (i.e., demographics, behaviors)?
 - ii. What's most important to customers in transacting business with an ROV or drone company?
 - iii. Which segment(s) are most attractive? Why?
 - iv. What are most common needs that customers share?
 - v. What are their customers' decision-making processes (meaning, what issues do they consider before they purchase products or services from Marabots or from a competitor)?
 - b. How do customers find out about ROVs or underwater drones?
 - c. How important is location in transacting business (is being local critical to purchasing?)
 - d. What influence does price have in customers' decisions to purchase?
- 4. What are the marketing channels and distribution options?
 - a. What are the channels of distribution for **recreational** submersible underwater drones/ROVs in the United States and around the world?
 - i. Are there a few large master distributors or many smaller distributors? If the latter, which have leading market share?
 - b. Since Marabots is a U.S. firm, does it make sense to launch in the United States?
 - i. If so, what supportive evidence or facts does it know about market demographics and needs?
 - c. How is the company's target audience currently addressing the problem or need?
 - i. What alternatives (substitute solutions) do they have? Who's the competition?
 - ii. Through which channels do customer segments want to be reached?
 - iii. Which channels are most cost-efficient?
 - iv. Will the company integrate its channels with customer routines and behaviors?
 - d. What is the retail distribution?
 - i. What are the retail outlets for recreational ROVs and drones?

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- ii. What does the research on marine retailers, marine electronics retailers, and associations show?
 1. What does the company know about the products it sells?
 2. Can it describe its customers?
 3. Are marine-focused retailers a good distribution option?
- iii. What percentage of recreational ROVs are sold via the following?
 1. Small dive shops
 2. Specialty marine retail shops
 3. Superstores
 4. Online
 5. Other (please define)
5. What is the competition and unique value proposition?
 - a. What is the messaging and value proposition for similar recreational ROV products? What can the company learn from this?
 - b. Compared to the competition, what attributes does the product need to offer to make it unique or more valuable to customers?
 - c. What competitors exist in the recreation market in the < \$2,500 price point?

In Their Shoes

Before you continue reading, imagine that you are one of the student interns completing the industry research. How would you address these specific questions? Think about the different research channels you would use to answer these questions.

- Write down five to eight channel or sources you would research to answer the questions outlined.
- Would you want to interview anybody at key organizations, associations, or companies?
- What questions would you ask?
- What information would you ask Marabots to provide you with?
- How would you locate competitor information?
- Describe your market research process.

HIGHLIGHTS OF MARABOTS RESEARCH FINDINGS

Below we have provided you with highlights of the students' key findings. This data combined primary research interviews with secondary market research designed to understand competition and changes in the market. There was

also a focus on the impact the massive growth in the drone market would have in the recreational (B2C) submersible drone market. They decided to study "Underwater Drone Campaigns" on Crowdfunding Sites Indiegogo and Kickstarter to

see what activity was occurring in the start-up space to ensure they covered current and future trends. Did you think about doing this?

Review the summarized data and think about what you would recommend to Marabots and why you could justify that recommendation. After you have read the findings, then proceed to read the final recommendations the consultant and students gave to Marabots.

1. The Role of Price

- Now that action cameras are waterproof and people can throw them below the boat and take pictures, they are not spending a lot of money in the \$1,000 price range.
- If there was a \$1,000 unit it might be desirable, but it must be very high quality or it could turn people away because they don't want to keep upgrading it. If it breaks after a week or two, then the reviews go bad online and people get turned off.
- Price is a big driver; keeping it low is important; keeping it small is important. There are so many applications; adaptability is also important—depends on which customers you talk to. Some want to take it fishing or check reefs or boat.
- There are a number of small competitors whose primary value proposition is to lower the traditional high price point of ROVs. They priced theirs between \$1.5K and \$1.8K.
- Average boater finds \$1,000 too high: would need compelling interest or event like going to the Caribbean and diving.
- Be careful—it would be hard to produce a decent product at this price; most drones have 10% margin; a low cost couldn't survive with that margin; have to produce

at a much lower cost; volume isn't there. Others sell in volume; you would have to sacrifice many components and features or quality to do that, and you can't make up for it in volume because the market demand simply isn't there. There aren't enough people in the market who want it.

- 10 or 15 companies have products announced at the \$1K price point; companies are excited about it.
- Small margin on \$1K and the crowdfunding campaigns for underwater units raise a lot less than aerial units.
- People don't understand what they're going to see in the water; with aerial units, there's more to see; core difference in what you're filming.

2. Impact of Aerial Drone Market on Submersible Drone Market

- There is demand for \$1,000 price point due to the interest in drones, but it's a one-time purchase—unlike aerial drones. People don't start with a cheap one and move up; they buy what they need.
- The growth in the aerial market helped gain exposure, but it's a different customer due to geography.
- The main use for an aerial drone is to take pictures of cool things people see on the water surface and then post pictures to social media; there is minimal demand to see things under the water that a camera can't provide.
- Aerial drone market is much larger than underwater. People are more focused on marketing to businesses and improving the environmental efficiency and ultimately, more profit for the company.

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- Trend in market is down overall in the United States for robotics; however, marine robotics are growing because of this year's uptake with infrastructure and exploration (mostly educational research). International markets are increasing because of wind farms and concerns for environment.
- There is a large range of prices in the drone market:
 - Under \$100 = very limited features
 - Several hundred = more specialized (infrared, radar, sensors)
 - Tens of thousands = large devices, industrial use

3. Market Size and Growth Sectors

- Expansion into the UUV (unmanned underwater vehicles) market shows growth in the B2B space as opposed to the B2C space.
 - The UUV market is about to ramp as the aerial drone market did during the 1990s. There are several market drivers to accelerate this ramp. These include military applications, seabed mining, oil and gas applications, and telecommunications.
 - Research forecasts the UUV market will grow from \$1.2 billion in 2014 to \$4.8 billion in 2019. There are also clear estimates that the global AUV market will expand from \$457 million in 2014 at almost 32% CAGR through 2019.
 - Underwater drone news has increased, although little is occurring within the consumer sea drone space. The military and industrial sectors have

seen heavy news flow validating the value and utility of UUVs.

- Substantial growth prospects of the market can be attributed to surging eminence of drone flying as hobby initiatives such as UAV photography and racing.

4. Customer Alignment

- The market for marine robotics/ROV's is the 30+ male with money, with a 30+ foot boat, and making US\$200K+ with disposable income; family sector and fishing guy; likes boating.
- The underwater market it is more oriented toward research. With the underwater market, this is NOT a hobbyist market and is very fractured and specialized.
- Consumers are less likely to purchase semiprofessional drones at higher price point.
 - Consumer use is a much smaller market, but is heavily influenced by the diving industry, which is growing rapidly and constantly seeing a use for marine robotics.
- Marine drones are less well-known, but there is increasing use for environmental and commercial use.
- Can absolutely see the explosion for drones increasing demand for underwater drones. However, the aerial market is fueled by the hobby market and folks who specialize in a focused area such as research.
- Inspecting merchant ships—done by divers and video camera—is how it's done now; done in drydock and inspection is annual so it's tough to justify the cost when it's once year. This is another reason underwater drones are harder to sell.

5. Understanding the Marine Market

- The market in recreational boating has been decreasing with recreational fishing and for accessory purchases made by owners of recreational boats. There is hope for more households buying a boat within the next year; however, it is not a significant enough amount to raise the industry sales in the billions. It also does not consider the size of the boat that will be purchased or the price point at which it will be sold; therefore we cannot assume those individuals will be buying drones in addition to a boat within the next year.
- Market for recreational boating in 2001 to 2014 decreased beginning in 2013.

6. Understanding the Drone Market

- You can currently buy a drone online starting as low as \$50 and up to \$4,499 on Amazon.
- The global market for commercial applications of drone technology, currently estimated at about \$2 billion, will balloon to as much as \$127 billion by 2020.
- The global consumer drone market is projected to grow at a CAGR of 23.40% from 2016 to 2020 and at an estimated CAGR of close to 30%, from 2016 to 2024. It is expected to reach \$4.19 billion by 2024.
- Substantial growth prospects of the market can be attributed to surging eminence of drone flying as hobby and initiatives such as UAV photography and racing.
- Yacht owners will pay \$4K to \$5K for a marine electronic/robotic. However, there are individuals who own smaller boats who are more price sensitive so it's become more important to sell at a more reasonable price point (\$1,000 to \$1,500).

- Consumer use is a much smaller market, but is heavily influenced by the diving industry, which is growing rapidly and constantly seeing a use for marine robotics.

7. Features Desired

- The features that people care about are quality of the picture, lights and thrust—can it go against the current: 2 or 3 knot currents—that's important.
- In terms of offering a unique value proposition, price is part of this but the user experience is critical. There's a patent pending modular system offering a top-notch experience so individuals from 5 to 95 can use it; it's very intuitive, even Grandma can use it.
- There are new features: They don't tether but, technologically, this isn't an option; more sensory integration. Customers want products that don't tether but from a technology perspective, this is not an option. Customers also want more integration of the sensors, but the company doesn't offer support for this. To resolve this, a tool that manipulates movement would be acceptable. Grabbers or manipulators would be great.
- Consumers want better sensors, more flexibility, and a longer battery to continue research in the field instead of stopping and coming back to finish. There's a high chance for more development in the industry to improve these features—specifically, programming manipulators hardware for use of data to be applied to the environment on the spot.

Before you read the recommendation presented to Marabots, please write down what you would recommend based on the highlighted summary above. In addition, create a Positioning Map for Marabots to visually display its place in the market.

MARABOTS FINAL RECOMMENDATION

Recommendation to Marabots

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Based on our extensive primary and secondary research, the opportunity for underwater drones in the B2C space is not the optimal strategy for a company like Marabots. You currently have a business model built around the B2B market where you rely on high margins, lead generation programs, and sales activities to grow your business. The B2C market requires a different customer acquisition strategy and market approach—one that focuses on brand loyalty, awareness, and engagement campaigns that are expensive and require securing different channels of customer interaction.

You are a small business with limited human capital and a restricted marketing budget, so staying focused with your marketing channels as well as targeting specific sectors of the market where you have strong connections and penetration is key to your survival. At this time, the market for underwater submersibles is becoming saturated with start-ups and venture-backed businesses that are trying to produce an underwater drone at a low price point with narrow margins. The primary customers are hobbyists, and this is not your focus in the market. It would be expensive to gain traction in this area by launching B2C marketing campaigns to secure new customers, especially given the low margin on these products.

Another concern with the B2C approach focused on developing products with a significantly lower price point is that you could find yourself in a position where you are cannibalizing your own B2B market, competing directly

with priced ROVs. This can work, for example, with products like Apple's iPad/Mac because it is targeting the same customer with similar marketing tactics and focusing on purchasing multiple products. However, if you are going after a different market, you risk eroding your profit margin in the B2B market and concurrently not realizing enough of a profit margin with the gain in your share of the competitive consumer market. Therefore, the perceived ROI for Marabots would not be appealing and could have a severe impact on your ability to grow since your resources are limited and staying focused is critical to your success. The B2C space is traditionally more difficult to capture so, with tight margins and a misalignment with your current target customer, this is not the best use of your limited resources in terms of human capital, time, and money.

In conclusion, your focus and success in the B2B market has allowed you to get to a critical point in your business where you are ready to identify new products and business collaborations to realize the next stage of growth. Switching your focus to a B2C product with a low-margin, low-price-point product does not fit into a logical business strategy and is not recommended.

Did you come to the same conclusion as the research team or were you considering a different approach? What data helped you formulate your recommendation? How will this help you in the future as you begin to consider product launches for a business that intrigues you?

FOCUS ON APPLICATION: WAKU

The Entrepreneurial Journey

Juan Giraldo, Nico Estrella



Finally, let's take a quick look at the research that Waku conducted to better assess what the demand in the healthy-beverage market looked like in the United States (the market they elected to launch their business). They used a variety of sources to understand the market, and below we have highlighted a few that they found to be most valuable:

Google Beverage Trends Report 2017 (Horwitz & Zimmer, 2017). This report used Google data to identify and compare nonalcoholic beverage trends across four different markets: United States, United Kingdom, Spain, and Mexico. The goal of the report was to understand which beverage trends represent the largest opportunity. What the research revealed was process, flavor, and premium are critical factors in the beverage demand sector.

- Major increases in demand for beverages that are cold brewed (beverages brewed used room-temperature or cold water) demonstrated that how beverages are processed is growing in demand. The experience of making and enjoying the tea has become more important to the consumer.

- Top searches grow significantly based on earthy flavors associated with plants and herbs. Food that are functional and associated with health benefits and earthy flavors are more popular. For example, "Prior to 2016, interest in matcha flavored foods was almost nonexistent across the four markets. While matcha drinks continue to grow at a strong rate of 64% year over year across the four markets, matcha associated foods such as cake, cookies and ice cream have been gaining interest at a rate of 62% year over year" (Horwitz & Zimmer, 2017). In addition, the research shows that the buzz or conversation about matcha focuses on its antioxidant qualities, rich and smooth consistency, and its affiliation with boosting metabolism. This was based on "caption" data that analyzes the language of top influencers content related to matcha qualities.
- Growth in water is fueled by an interest in more enhanced or premium water that goes beyond simply quenching one's thirst. Again, the process that was used to make it and even the container has become an important factor in terms of searching for the product. YouTube influencers were talking about taste, safety, carbonation, and accessorizing (more interesting packaging).

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- Infusions (soaking plant leaves or herbs in hot or cold) and tea are growing in terms of search, with the tea-drinking experience becoming a more important part of the consumption of the product (versus simply being functional, i.e., to quench thirst).

Beyond Google analysis, Waku looked at major research that had been conducted to ensure they understood the trends in the market:

- Mintel Group research shows that “Beating out juice and plain sparkling water, tea took the lead as a healthy beverage choice, with 49% of consumers agreeing that they consider tea (hot or iced) to be a healthy option when dining out. Plain sparkling water follows closely behind at 43%. While tea can have hidden sugars, in an unsweetened natural state it’s known for offering a variety of health benefits that’s likely driving the association.”
- According to Mintel’s *Coffee and Tea on Premise—US, December 2016 Report*, 27% of consumers would pay more for coffee/tea beverages with added health benefits. Plant-based water, such as coconut water, is growing in popularity in retail settings, but is still fairly limited in restaurant settings. Nevertheless, 32% of consumers correlate plant-based waters with health, demonstrating its increased growth in health segments. According to Mintel’s GNPD database, coconut water noted a 39% increase in product launches from 2015 to 2016.

- The trend for healthy hydration is driving growth in plant-based waters with global sales growing 21% in 2016 to reach sales of more than \$2.7 billion USD. According to Zenith Global, the market by 2020 will have doubled in size to reach \$5.4 billion (Zenith, 2017).
- Unilever research of 20,000 adults in five countries showed that sustainability is critical when it comes to food and beverage products. Seventy-eight percent of U.S. consumers feel better when they buy products that are sustainably produced. “Sustainability was voted ‘most important’ in the food and beverage trend for 2017. 1 of 3 global consumers choose to buy brands that they believe are doing social or environmental good. More than one in five (21%) of the people surveyed said they would actively choose brands if they made their sustainability credentials clearer on their packaging and in their marketing” (Unilever, 2017).

Implications based on this research helped Waku understand the importance of premium drinks infused with natural ingredients that create an experience for the user. They saw a growth in plant-based waters moving beyond coconut. Yet they understood that this was a crowded space with many massive market share holders competing for customers. This supported their interest in further pursuing their idea and decided that it was time to look even more closely at the market in the United States for their new concept. In the next chapter, we will discuss what they learned when they talked to potential customers.

AHAS

Lessons and Takeaways

It is critical that you establish a baseline of knowledge about the markets you anticipate you will operate within before you begin to develop your product or service. This knowledge includes market trends that influence and impact the success of a business. In this chapter, we focused on secondary market research tactics that involve uncovering clues about industry practices and norms and how to gather data about target markets and the marketplace in general. The sources of secondary research vary tremendously, and it's critical that you ensure that the data is solid and well researched before you attempt to use it to make business decisions.

There are also numerous online tools that will help you identify trends in the market. The specific type of data that you will want to secure includes (but is certainly not limited to) the following:

1. The size of the target markets that seek your solution, now and as they evolve and change over time
2. Your ability to access these markets, now and as they evolve over time
3. The strength of direct competitors (organizations that offer solutions

that are similar to yours) as well as indirect competitors (also known as substitutes) that provide a way to address the customers' current needs that may be quite different from your solution

4. Trends in the industry that impact your opportunity, in either a positive or negative manner
5. Factors like environmental or government regulations that impact your business model, in a positive and/or negative manner

Finally, you should examine your company and teams' core competencies and strengths and your overall competitive position using two popular business frameworks called SWOT Analysis and Positioning (Perceptual) Map. These will allow you to combine your strengths with the opportunity in the market to combat threats from competitors that do not possess the same skills and expertise that you do. You can then use what you learned to project this information into a visual map to see how you might position your business against others in the market based on two qualities or traits that are valued by customers.

TOOLKIT

Worksheet 2.1: SWOT Analysis

Name _____ Company _____

Strengths—Consider these areas:

- What unique advantages does or will my company have in the marketplace or industry?
- What does or will my company do very well?
- What does or will my company do that surpasses our competitors?
- Do we have access to resources, distribution channels, or technology that is unique to my company?
- How do or will individuals within the organization contribute to our success?
- What expertise or unique experience do I or my employees have that will have a positive impact on our business growth?
- What other strengths does my company have that provide it with a unique advantage in the market?

Name three Strengths unique to your company:

- 1.
- 2.
- 3.

Weaknesses—Consider these areas:

- Relative to our competitors, what areas are we simply not proficient at?
- Do we lack experience in a vital area such as sales, or do we lack the ability to develop new products that will contribute to our growth?
- Do we have a shortage of people with the right experience, skills, or expertise?
- How much knowledge do we possess about certain markets or industry sectors that are relevant to our business?
- Do we lack technical skills or need improvements in our ability to operate smoothly?

- Are we experiencing production capacity problems because our systems are not working at peak performance?
- Are our manufacturing/production costs too high, yet we are not able to lower them in the near future?
- What other areas need improvement?

Name three Weaknesses unique to your company:

- 1.
- 2.
- 3.

Opportunities—Consider these areas:

- Is there strong customer demand in the market for our products or services and the value that we provide to our customers?
- Is there a lack of satisfaction with the products that are currently offered or available?
- Is our competition limited or weak in certain areas that we have not yet addressed or attacked with full effort?
- Is there a lack of competitors or substitute products or services that currently satisfy customers' needs?
- Are there readily available or easily accessed distribution channels (e.g., the Internet or the opening of a new trade channel) that we can take advantage of?
- Are there opportunities to easily enter a new or related market?
- What other opportunities are there in the market that will help me launch my business?
- Are switching costs (perceived or real) low?

Name three Opportunities that you can take advantage of:

- 1.
- 2.
- 3.

Threats—Consider these areas:

- Do barriers to entry, such as limited distribution channels or the closure of certain channels for importing or exporting products, affect my business?
- How much competition is there in the market?
- Are there a lot of substitute products, making it difficult for me to differentiate my value?
- Is my company affected by an increase in the price of supplies or lack of availability of certain supplies required to develop or deliver my product?
- Does inertia affect my business (i.e., people are “happy enough” with the present solution to their problem)?
- What regulations affect my business, now and in the future?
- Have there been any changes in customers’ interest in my product or service?

Name three Threats that you need to be cautious of:

- 1.
- 2.
- 3.

Worksheet 2.2: Strategic Plan to Address SWOT

Strengths (S): List your top three strengths/core competencies.

- 1.
- 2.
- 3.

In the left column, list the top three opportunities and threats that you encounter as a company. In the right column list the strategies you will deploy using your strength to maximize your opportunities and minimize your threats.

<p>Opportunities (O)</p> <p>1.</p> <p>2.</p> <p>3.</p>	<p>Strategies for using strengths that maximize opportunities</p> <p>1.</p> <p>2.</p> <p>3.</p>
<p>Threats (T)</p> <p>1.</p> <p>2.</p> <p>3.</p>	<p>Strategies (S) for using strengths to deal with external threats</p> <p>1.</p> <p>2.</p> <p>3.</p>

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Strategic Plan to Address SWOT continued

Weaknesses (W): List your top three weaknesses as a company.

- 1.
- 2.
- 3.

In the left column, list the top three opportunities and threats that you encounter as a company. In the right column list the strategies you will deploy to overcome weaknesses to maximize your opportunities and minimize your threats.

Opportunities (O)	Strategies for overcoming weaknesses to ensure maximization of opportunities
1.	1.
2.	2.
3.	3.

Threats (T)	Strategies for overcoming weaknesses to minimize threats
1.	1.
2.	2.
3.	3.

Worksheet 2.3: Market Size Analysis

Step One: Calculate your Total Available Market (TAM). TAM is calculated by identifying the total revenue or sales within the market in the last year or projections in the near future (next 2 to 3 years).

Step Two: Calculate your Serviceable Available Market (SAM). SAM refers to the geographic region or perhaps a segment of the market that you will have access to.

Step Three: Calculate your Share of the Market (SOM) assuming that there are others in the market and you will not likely have 100% of the market.

Step Four: Create a visual representation of your TAM-SAM-SOM. Using a series of circles show your estimated market size below.