c h a p t e r   2

Developing the Venture Concept

2

The Purpose of the Chapter

The previous chapter helped you determine the *scope* of your venture: the industry and sector of that industry in which you wish to start a company, and the "type" of business you will launch. Scope defines the boundaries of your intentions. That is an essential first step. But within those boundaries, who precisely should you serve? How much of the larger market do these target customers represent as an addressable market? And exactly how do you propose to create value for these customers?

This chapter will help you start to answer that question by creating a customer focus. From this focus, in the next chapter you will then develop a *specific business idea*—what we call the *venture concept*. The process for creating a robust venture concept is equally applicable to corporate as well as startup ventures.

A fully developed business idea has two key dimensions: (1) the *venture concept* and (2) the *business model associated with the venture concept*. We will deal with the venture concept over the next two chapters and save the business model for Chapter 5.

The venture concept includes the following elements:

- The market niche with your target industry sector (i.e., the addressable market)
- The target customers and, when the "users" are not the "buyers," customer insight into both
- The primary problems or activities of the customers that the venture seeks to solve, improve, or otherwise address

- The venture's basic commercial offerings, its products, systems, services, or some combination thereof
- The competitive positioning of the venture and its commercial offerings

Each of these elements must make sense individually *and* together! In this chapter, we will target the first two bullet points: the target market niche and customers in that market niche. And in the next chapter, we will then learn how to mine customer needs, create winning product and service ideas, and position them against competitors.

All of these elements are important for success. Great companies are characterized by alignment between their choices of market segment or niche, intended customers, commercial offerings, and the positioning of those offerings in terms of price and performance relative to existing competitors. An entrepreneur's choices for these strategic elements must make them mutually reinforcing. For example, conceiving richly featured products and services and positioning them as having a premium value makes little sense if the target niche and its customers have little money or appreciation for premium offerings. On the other hand, a strongly growing market niche with appreciative customers will support the same premium product set. The key ingredients of the venture concept recipe must fit and blend to make a powerful result.

As in our prior chapter, we will first explain target markets and customers through a series of simple templates and examples. And then we will want you to apply these templates to your own venture ideas—within the scope that you established in Chapter 1.

Learning Objectives

- Segmenting your target markets
- Developing a crisp definition of the customers and their uses or applications that the venture will address.
- Using these market and customer definitions as a launching pad for further customer research to more fully understand user pain points and needs.

Building Upon the Prior Chapter: Determining Your Market Niche Within a Target Industry _____

You should now have a good notion about your initial target industry and the sector of that industry that will be the object of your entrepreneurial efforts. You have also considered the type of business you wish to create in that industry sector, for example, a product, systems, or services type of company, or some combination thereof. We called this the venture scope.

Now, we need to advance this forward to the next level of focus. The goal of this chapter is to develop a specific venture concept within the venture scope you defined in Chapter 1.

First, let's make an important conceptual bridge. In Chapter 1, we used the word "industry," and then "industry sector" to reflect a part of a larger industry in which you wish to create a business. Once you make that decision, that "industry sector" becomes your "target market." It has

customers who have problems that you wish to solve, customers to whom you wish to sell, and customers from whom you wish to collect money.

We need to get even more specific. Successful entrepreneurs start their companies by targeting a specific "niche" within a target market (e.g., industry sector). There are many ways to get to a target market niche, but the best, most systematic way to arrive at that conclusion for a new venture is to:

1. Segment or divide the broader target market by clear, "physical" properties to identify major groups of customers. For business-to-business (B2B) ventures, this might be size of the customer's own industry orientation (often called a vertical market), its size (small, medium, or large), and geographic location. For business-to-consumer (B2C) ventures, these physical properties might be as simple as age and gender. From this, we get major buckets of customers who have similar characteristics. This is called *market segmentation*.

2. The next step is to focus in on a particular segment of the broader market and identify subsets of the larger customer group in that segment. These subsets are defined by collections of customers who share core needs. This is traditionally called *customer segmentation*. The needs of each group are "homogeneous" with each group and different than other groups—all within the same market segment. If there are "no differences" in customer needs, then you have "a mass market"—no segmentation or customer groupings are necessary. Typically, however, most markets consist of customers with different needs; the entrepreneur's job is to determine the needs of different customers and to determine which customers have needs that are currently being met and those that are going unmet. *Those unmet needs* become your opportunity!

3. Our bridge from selected industry sector to target market niche is almost complete. The last step is a refinement of *customer grouping* with a market segment to include uses or activities by customers. From this we can define the term "market niche" in a way that works best for the entrepreneur. A market niche is also part of a particular market segment. However, it is more than just a specific group of customers. Rather, it is a combination of that group of customers and *what* they are using–a particular set of products or services to get done or otherwise achieve. College students use computers to do homework, socialize, and shop; adults use computers to work professionally, shop, and sometimes, to socialize. The market niche is that intersection between "the customer" and the "uses" of the product or service by the customer. Specific market niches therefore equal "customers and uses." Once again, the entrepreneur must find the "met" and "unmet" needs within the selected customer group and for the various uses or activities of customers in that group. From this you can define products, services, and market strategies that are specific, distinctive, and which aim directly at the heart and minds of your target customers.

This three-step process and the terminology that goes with it are very important. It helps you focus on a specific market niche and, in doing so, learn everything you can about the customers and their uses in that niche. This knowledge becomes the entrepreneur's greatest competitive weapon. It drives the design and pricing of the venture's products and services, its selling strategy, and its branding. Focus creates a powerful alignment in everything that the venture does. And this, if well executed, generates revenue.

These Three Steps in Action

Let's take a specific example of a company that one of your authors helped get started—a spin-out of technology from what used to be the medical division of Hewlett-Packard. The startup

was a software venture for clinical information systems. The industry was health care. The sector in that industry was hospitals. The goal of the venture team was to introduce a new type of security software for doctors and nurses accessing clinical information systems running on the computer networks of hospitals. (There is a case written on this successful spin-out in the back of this book. It is called Sentillion.)

From hospitals as a broad market, the team first segmented the market by its clear physical dimensions: the size and location of the hospital. To do this, the team gathered data on the size of the hospitals (small, medium, and large, based on the number of beds in the hospital) and geography (United States, Canada, Europe, and so forth). These data were readily available from government and other freely available sources. The amount of money being spent in this market for clinical information technology at the time pointed us to large hospitals, and since we were just a startup, to those customers just in North America. Our initial market segment was therefore large hospitals in North America—a specific intersection point between these two key dimensions.

Next, the team started grouping customers by actually visiting a number of local, large hospitals. They distinguished between the traditional keepers of computer technology—the IT staffs of hospitals—and the end-users, such as doctors, nurses, and other care providers. In the specific area of information security, the team found that practicing physicians and nurses were having lots of trouble remembering passwords and IDs to sign into the dozen or more clinical information systems that they had to use over the course of a day—*and often forgot to sign out!* There was really no sure way to tell who had actually entered a drug order or medical observation or a recommendation for a procedure into a particular computer system. This chaos was unacceptable to the managers running hospitals and no longer tolerated by the federal government. The doctors and nurses wanted one simple way to sign on to the myriad applications that they had to use throughout the course of the day. Their driving need was convenience. Remembering all sorts of various passwords was a hassle, and remembering to sign out was problematic given the pace of action during the day and night in large medical centers.

The data processing staff, on the other hand, wanted to know the *who, what, when, and where* for all doctors and nurses accessing clinical information across a very large and often multifacility operation. The federal government was actually requiring them to assure this accountability as part of Medicare and Medicaid reimbursement compliance.

This field work by the venture team led to two specific uses within hospitals*:* a simple, single way to log into all systems permissible for any given doctor or nurse and a powerful underlying set of tracking databases to store all access information so that it could be audited later on. The venture then quickly developed single sign-on solutions for care providers and detailed tracking databases for the IT managers. *The focus on specific customers, their uses, and their driving needs* were the key factors for success for this company. It grew to be the market leader in single sign-on for health care and was later acquired by Microsoft for a handsome sum.

Creating a Picture of Your Market Segmentation

Figure 2.1 shows the market segmentation grids for a B2C venture within the snack foods industry sector. We have seen similar grids both in a number of new ventures and within the internal venturing groups of large consumer products companies. This particular approach was used by an internal venture group of a large corporation to innovate beyond its core brands and products.
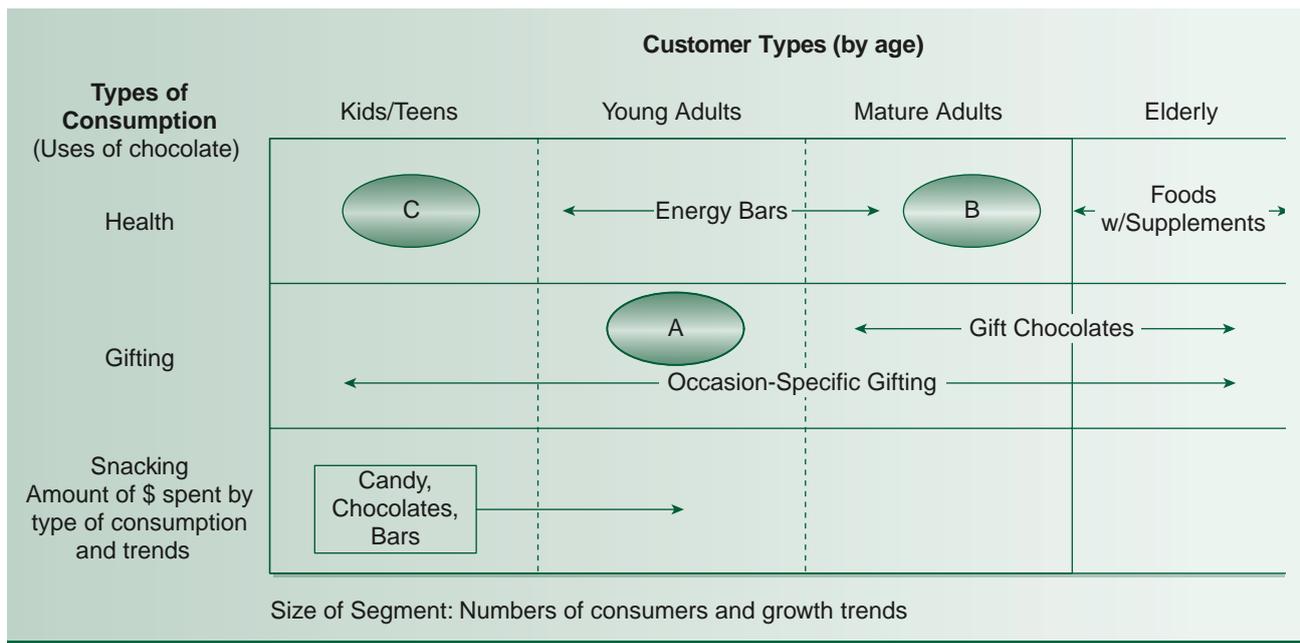
Figure 2.1   A Market Segmentation Grid for a Chocolate Venture

The horizontal access is straightforward and meaningful: It has different types of customers as measured by age groups. The vertical axis is based on three major types of snack food consumption, each of which already has current products yet still offers a lot of "white space" for the development of innovative concepts. The bottom row is the region of the market segmentation grid that is most difficult to innovate—a new mass market candy for kids and teens, such as another M&M'S Candies, Hershey's bar, or Snickers. Trying to venture into this space runs into the teeth of well-entrenched competitors who own powerful brands as well as shelf space. Seeing this competitive landscape on one part of the gird, the entrepreneur looks elsewhere. There are many ventures, for example— either within established manufacturers or as entirely new startups—that are seeking to provide healthy snacks in the form of bars, cookies, and dried vegetables for different types of consumers in the top row. The health snacks and treats section of grocery stores expands year by year, filled with new product innovations. Other ventures—such as online beverage sellers or apparel companies like Vermont Teddy Bear—are bringing occasion-specific gifting ideas to market. The market segmentation grid for an industry sector shows the entrepreneur where it is best to focus his or her attention. We have drawn circles on the gird to indicate possible areas for venture development:

- Circle A: Develop a venture around healthy energy bar products that are flavorable and less fattening for mature adults. (Most energy bars have high caloric density—and don't taste all that great.)

- Circle B: Develop a venture around a more contemporary type of gifting chocolate that would be "cool" for young adults still in college or just out of it (e.g., a much more contemporary type of Godiva).

- Circle C: Develop a venture on the notion of disrupting the established confectionary business by making healthy snacks that are not only good for kids but that they also love to eat! An example might be "fun fruit"—a whole serving of fruits in different fun flavors in a shelf-stable, kids-designed package.

The corporate venture team decided to go for Circle B and located the business in Manhattan with a combination retail and online business. Arguably one of the best chocolate chefs in the

country was a key team member, and he had both the product knowledge and a strong empathy with that particular target market segment. Besides, all the data showed that gifting was a strong and growing category with well-established routes to market—including the Web.

As another example, Figure 2.2 shows a market segmentation grid for a computer consulting venture. This was a team of MBA students who were already midlevel IT managers in companies near our university. They were very strong at designing and implementing service-oriented architectures (SOA) to link up different types of applications in a much simpler way within large enterprises. Another way of thinking about SOA is simply as a "Web services model" where users can access and use any and all software through a Web browser. Two of the team members worked in financial services and another in e-commerce for a major retailer. Like many of you, they had taken the entrepreneurship course with a goal of starting their own business! Chapter 1 told them to focus on what they knew and enjoyed: enterprise computer technology. Within that sector, however, there were myriad possibilities. Rather than make a simple checklist that would run on page after page, the team created the framework in the figure to guide its research and decision making. On the horizontal axis are key vertical markets; on the vertical axis are the sizes of the client company. Each axis could be clearly identified or measured (the prospective client's industry affiliation and its size in terms of the number of employees or approximate level of sales). Moreover, the team was able to gather specific information on the size of IT spending within each vertical market, the growth rates of that spending, as well as the number of prospective client companies within the categories of small, medium, and large corporations.

During the year in which these data were gathered (during the post-9/11 time period), it became clear to the venture team that information technology "spend" in financial services was taking a huge hit given economic conditions. However, the team saw tremendous growth continuing in Web-based retailing. Their data also indicated that large sums of money were projected to be spent on modernizing and connecting health care information systems. In terms of client size, they knew that the large consulting outfits—such as Accenture, IBM, and Hewlett-Packard—would be hard to beat in the large retailer-company market. They further suspected that small companies did not have much cash to spend on external consultancies. They therefore targeted the midmarket and aimed at
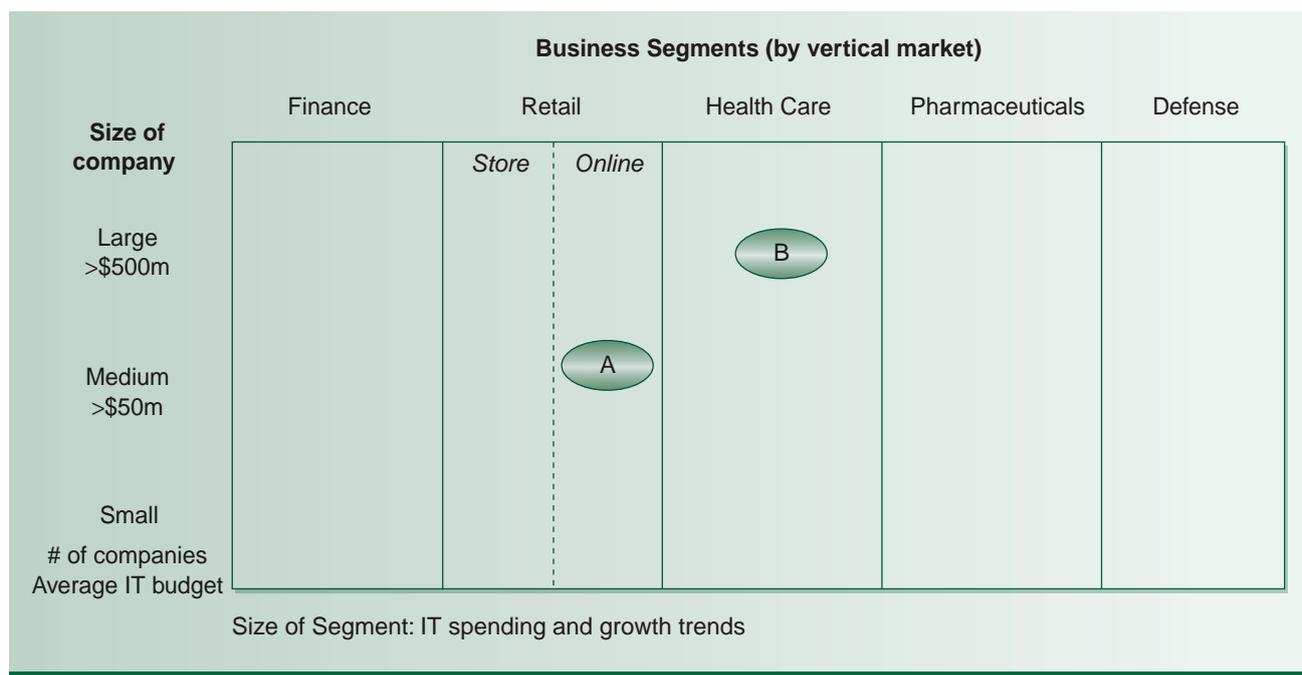

Figure 2.2   A Market Segmentation Grid for an IT Consulting Venture

a vertical market other than their own traditional niche of financial services. Helping midsized online retailers became the venture's target market segment (the circle labeled A in the figure). The team also decided to allocate some of its time and energy to get smart in the health care arena as a potential second target down the road. (This is represented by the circle labeled B in the figure.) The lesson in both of these stories: segment your target market into its logical pieces and let the market data in terms of growth and customer need direct you to the most fertile ground.

Keep Your Market Segmentation Simple Yet Powerful

These two examples also show that it is important to keep market segmentation within your industry section simple, easy to explain to others, and yet powerful in terms of providing clear differentiation between different possible types of customers. This will make your strategy easier to explain to investors, employees, vendors and channel partners. It will also be easier to explain to your professor! For this reason, we limit our market segmentation framework to just *two, and at most three, dimensions*. It is fairly easy to explain phenomenon that have two major dimensions. Once we get into three, it becomes a lot harder!

And as these two cases show, the entrepreneur tries to find the "white space" on his or her own market segmentation grid for an industry sector. Each cell on the grid represents a specific market segment. The entrepreneur selects one or two segments to investigate deeply and then gathers all sorts of information about the current level of revenues for products or services sold into the segment, growth rates, and competitors. This information provides the entrepreneur with a picture of the attractiveness of any particular market segment—and tells the entrepreneur where to aim first.

Market segmentation should help you to focus your business and all the various aspects within the business, such as the design of the products and services you create or how to bring these to market. In general, you will know that you have a powerful market segmentation framework when its segments are:

- Measurable (such as decennial age groups or industry groups)
- Meaningful (the behaviors and emotions of people or businesses in these segments are truly different)
- Actionable (we know what is needed to make and market Toyota Camry for commuting adults, versus a Scion for Gen-Yers)

Established Market Niches
Versus Emerging Niches

As we have discussed above, entrepreneurs like to hit a particular niche of a larger market—a specific combination of a group of customers with shared needs for specific uses or activities—rather than attack the market more generally. For example, in the single sign-on software corporate spinoff described earlier, large hospitals in North America was the market segment, and the user authentication and tracking became the market niche within that segment. There are two types of niches for the entrepreneur: established niches and emerging niches.

An *established niche* that is suitable for a startup is one that is rather obvious to the observer but *too small* to merit the attention of large, established competitors. "It doesn't move our meter if it's less than a $50 million annual revenue opportunity," they will say. Well, $49 million in annual sales revenue is a big number for almost anyone launching a new company (particularly when that same established company will probably want to buy you for two to three times sales should you achieve even $30 million).

An *emerging niche* is a small but growing slice of a large market characterized by customers and uses that no company quite understands or knows how to fully serve at the moment; it is therefore seen as either too small or too risky by most large, established competitors serving the larger market. For

example, as we write this book now, it is obvious that the application of medical monitoring devices for home health care is a niche that is on the cusp of explosive growth. Such a solution can save society lots of money by reducing expensive hospital admissions, all for the cost of a few medical sensors, some wireless connectivity in the home, and a connection to some monitoring server software—just like ADT for home security. In contrast to this opportunity, monitoring devices in hospitals is the larger, established market, and it is already served by many major medical device manufacturers.

Similarly, mobile advertising on your cell phone is an emerging niche that many major players such as Nokia and Microsoft are trying to understand and exploit with new services. The core print and media advertising represents the large, well-established market.

Entrepreneurs try to find market niches that are riding the wave of a rapidly expanding larger market. This is the story behind the hopes of so many social networking startups, seeking to leverage the beachhead established by Facebook for the mass market or LinkedIn for professionals. The same is occurring in energy and in health care. The bottom line is that successful entrepreneurs target niches within robust markets and *so should you*.

Some entrepreneurs even try to create a niche—as was the case with eBay, which created online auctions within the burgeoning e-commerce market. When we hear that an entrepreneur has "created an industry," what they have really done is to create a tiny new niche in an established industry that over time grows large. Fred Smith of Federal Express started with a couple of airplanes delivering mail overnight. Now expedited delivery is a global industry. People who have the vision and courage to create new niches within an industry are nothing short of business geniuses, be it Bill Gates and Steve Ballmer with a PC independent operating system or Bob Metcalfe with a communications technology to link computers, for example, Ethernet.

If the entrepreneur can successfully launch a product or service into an emerging niche, then learn and grow, he or she might have the opportunity to eventually dominate that niche. At that point, the firm becomes an acquisition target for the larger, traditional companies in the main market, or as in the case of Microsoft and others, goes public and uses the capital to build or buy expansion into the broader market.

The Importance of Identifying Segments With Innovative Customers

Selling the innovative products of innovation companies often means finding customers who have innovative attitudes and behaviors, who desire innovation, and who appreciate the benefits of innovation for improving their lives and businesses. To create a "hot" innovative company, find those segments known to have customers who want a taste of your hot sauce—even though it is not yet well proven. These are customers who want to try the new—or at least to test the new.

This might be a segment with retail consumers who enjoy trying new things in a store or online. Or it might be certain types of buildings in certain locations where owners are proving themselves to be highly receptive to installing solar cells on rooftops. Or it could be the CIOs of large tertiary care hospitals who are just dying (sorry for the pun!) to use Web 2.0 technology to keep patients on proper rehabilitation after leaving the hospital.

The reason why the entrepreneur tries to find segments with innovative customers is that it makes selling so much easier for innovative new products or services.[1] The sales cycle for bringing new revenue in the door is one of the most painful realities of venturing. Shorten your sales cycle—particularly for a technology-intensive product—and you are well on your way to a successful business—assuming, of course, that your product or service *works!* When you are selling to an innovative customer, there can be many benefits. That type of customer is seeking to build a partnership with you, one based on trust and respect that goes both ways. You will supply great products and

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[1] Moore, G. A. (1999). *Crossing the Chasm: Marketing and Selling High-Tech Products to Mainstream Customers*. New York: Harper Business Essentials.

services at a price that is fairly commensurate with value; he or she will not beat down price and will also turn first for new solutions. In fact, that person will help you build your next-generation solutions.

If you are starting an innovative business, target segments with innovative customers first. It's that simple. Figure out who they are, what they need, how much they will spend, and what other products or services they want to use with the ones you wish to create. Think "partnership," regardless of whether your target innovative segment is initially a dozen large enterprises or 10 million Gen-Yers/Millennials.[2] Provide and market *real value* to a specific customer group within a target market niche and you will typically be able to maintain some form of premium pricing for your products or services relative to competition. From these operating profits on initial sales, you can then fine-tune your products or services and reach out to more risk-adverse segments and the customers within them.

The bottom line is that successful startups typically target a specific market segment.[3] Choose wisely, which means making yourself informed of the size, growth rates, and appetite for innovation across different potential segments in your industry sector. And remember, once you establish a foothold in a particular market segment, you can begin to consider expansion to adjacent segments. Getting there, however, will take a lot of work.

Now take a few minutes to sketch out what you think is the market segmentation within your industry sector. Use the examples above to try several different combinations, and pick the one you think makes the most sense. Then write where you think you can obtain higher-level, aggregated data for the rows and columns of your framework.

With that done, let's move on to the next step of the process: understanding the needs and wants of customers within a market segment.

Digging Deeper: Defining Major Customer Groups Within Your Target Market Segment

The next step is to segment even deeper within your target market. We can also think of this as grouping customers by common core needs and behaviors. Our objective is to understand the template shown in Figure 2.3.

Customer Group	Description of Typical Customer Needs and Behaviors (Use bullet points)	Segment Size/Share (Use words or actual numbers)	Priority in Terms of Startup Focus

Figure 2.3   Identifying Different Types of Customers in a Market Segment

Customer Segmentation Based on Common Core Behaviors and Needs

Reference in Reader Exercises

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[2] Gen Y generally refers to individuals born between 1985 and 2000 and are the children of the Baby Boomers. The Millennial term refers to these individuals who came of age and entered college around the turn of the millennium.

[3] Derrick Abell, author of *Defining the Business* (Prentice-Hall, Englewood Cliffs, NJ, 1980), was a master at deploying this simple user and uses framework to develop strategies for business growth.

You do not need to find a large number of different customer groups within a given target market. In most cases, you will find two or three distinct types of customers. And, if the buyers are not the end-users, you should create a second version of Figure 2.3 that focuses just on the different types of buyers within your market segment.

Let's quickly consider the two examples above to put these ideas to work. The first example of contemporary gift chocolates for young adults has specific types of (a) end-users and (b) buyers. Let's get personal. On Valentine's Day, we trust that you will buy chocolates for your *amore:* You are the buyer, and your boyfriend, girlfriend, or spouse is the end-user. If we were starting a venture here, we would want to understand the different types of customers first, for example, the different types of attitudes and behaviors of gift receivers within our target market segment of "young adults." We might find gift receivers that relish receiving expensive brand-name gifts of just about any sort, others who prefer discrete personal gifts, and those who value the thought of the gift more than the gift itself. For buyers, we might find consumers who think a lot about their purchases and carefully select amongst different options versus those who are impulse buyers (largely you men!). In fact, given what we learned we might want to create a premium, fashionably packaged product (e.g., expensive) for young men who are impulse buyers (e.g., not price sensitive for that special moment) who want to impress (or say they are sorry to!) their significant others. We would create two templates from Figure 2.3, with three rows for the customers and two rows for the buyers. This simple example is actually more complex than meets the eye, because there is the additional set of retailers who are the actual buyers of our products and within these there are specialty stores, mass merchants and purely online retailers. As entrepreneurs, we need to appreciate the differences in types across all three participants, and then connect the dots to create the right types of products, the right messaging, and the right channel to market.

For a B2B example—our students' IT consulting firm venture—the customers are the buyers. From our earlier discussion, we would visit customers in two potential market segments being the midsized online retailers and hospitals needing help with implementing a services-oriented architecture in their IT operations. We would look with a keen eye to understand core needs and behaviors that distinguish between different types of customers in each segment. In either segment, we might differentiate between really smart customers who prefer highly customized services and understand that such services must come at a moderately high cost, versus those that simply want "quick and cheap" solutions. Or, we might also find meaningful customer grouping based on users that lean heavily to well-known brands of proprietary hardware and software versus those that wish to explore the new generation of powerful "open systems" software. In fact, the combination of these two behaviors might lead us to four distinct types of customers within each market segment: smart-proprietary, smart-open, quick-and-cheap-proprietary, and quick-and-cheap-open. We would then try to populate each type of category through the "reality check" in Chapter 7 and see who is the most receptive type of customer and also needs our help. Our students ended up focusing on "smart-open" for online retailers for this very reason.

Figure 2.4 provides a general template for B2C and B2B businesses to describe important information for each major customer group within a market segment. In that figure, you create a name for the specific customer group, and further identify it by noting end-user or buyer, demographic or industry information, decision-making level, and most important, key attitudes and behaviors. We want you to be able to provide this type of information for the major customer groups in your target market segment.

Once we have a handle on the major types of customers by virtue of their core needs and behaviors, we can then say with greater confidence and specificity *who* we wish to serve first and then drive everything in our business concept to serving that type of customer.

As with our IT consulting team, there should be a good reason for that selection. For example, let's say your chosen customer group appreciates high-quality products and services and

	Business to Consumer	Business to Business
Customer Group Name		
User Type	• Buying for self • Buying for others • Using what others have bought for me	• Buying for self • Buying for others • Using what others have bought for me
Demographics	• Age, income, gender, marital status • Health condition (for some categories) • Geography/Culture (for some categories)	• Industry—vertical market/segment • Size of organization • Status—profit/nonprofit
Decision-Making Level	• Head of household • Influencer • None of the above	• Business unit/department • Rank and authority • Role in buying decision
Needs & Behaviors	• Physical activities around product/service use • Used alone or with others • Attitudes and emotions, positive and negative • Only buys at certain occasions during the year	• Focused on revenue growth • Focused on reducing operating expenses • Risk-taking versus conservative • Only buys at certain times in the budget cycle

Figure 2.4   Factors to Consider When Describing Target Customers

therefore is less likely to price-discount you. Or a particular customer group is particularly stuck with a problem and is desperate for help. Either situation can make for a great business with loyal repeat customers.

Alan McKim, an alumnus of our university, started what has become the largest environmental hazardous waste removal company in North America. He started his company by driving his own truck to oil and other waste spills that local and state agencies needed help removing. He and his first three employees personally provided this service with a high level of quality. They then grew from there. Today, Alan is the CEO of a multibillion-dollar-a-year concern and is amongst the top 15 fleet owners in the United States with over 5,000 trucks and has incineration sites across the continent. His company played a major part in dealing with aftereffects of 9/11 in lower Manhattan as well as Hurricane Katrina in New Orleans and now, oil spills large and small. (See http://www.cleanharbors.com.) This all resulted from Alan's razor-sharp attention to the needs of government agencies who were in great need of help, fast.

Application of Customer Segmentation to Farming of the Future

These frameworks apply equally well to corporate ventures. Let's populate the customer segmentation template from one such case. A few years ago, we came across a corporate venture team seeking to create software services for farm management. This was in the farm belt of the United States. The company had forever been in the "product business," and this team wanted to move into "services." Companies like John Deere had aggressively pursued this strategic path, and this venture team thought their company needed to get started down this path.

The industry was agriculture and the specific sector was "grains." Within this sector, the team segmented the market according to the type of grain (corn, wheat, soy, and specialty crops) and the size of the farm based on the number of acres. Given that the vision was to create computerized services to improve farm efficiency, they thought it best to focus on the large farm segment—those with more than 10,000 acres of land under management. The initial product

idea was to create a software tool that would allow the farm owner to specify all grain farm inputs (seed types and quality, pesticides, herbicides, planting and harvesting machines, etc.) and agricultural outputs, and monitor profit and productivity to better plan the next growing season. This tool would be provided as a "hosted" service to farmers because the customer wasn't expected to have fancy computer systems.

Over the coming month, team members visited a dozen farming operations in their state. Those visits revealed four distinct types of grain farmers that are shown in Figure 2.5. There were farmers who followed traditional methods who were called "Steady Eddies." Then, there were "performance optimizers," younger farmers who were comfortable with computers and truly ran their farms as growing businesses. The team also visited weekend farmers as well as dairy farmers whose only interest was to grow corn to feed their livestock. The team took photographs of these customers and developed "personas" for each type of farmer type. A persona is a fancy way of referring to a set of bullet points that describe the attitudes, behaviors, needs, and preferences of a particular type of end-user or buyer. The team then went to the Web and found federal government sources that provided data on size, growth rates, and trends in each customer group. Information from industry sources, such as trade associations and from government agencies, is increasingly available on the Web. All this is shown on Figure 2.5. The team decided with good reason to target the innovative farmer—the performance maximizer—who already owned a significant percentage of grain production acreage and was buying up the land of the Steady Eddies.

Customer Group Label	Description/Persona	Segment Size/Share	Priority/Status
Steady Eddie	Wants to stay the same if possible, stay profitable, sell the farm in 5–10 years and move to someplace warm in the winter. Thinks intuitively. If he doesn't use a computer to run the business now, he is never likely to.	About 35% of U.S. acres for grain growing, and 160,000 farms Declining share	May be large in market share but not a good target
Up & Comer	Thinker, Planner, Tester. A Performance Maximizer. Trained to use computers to manage business. Likely attended an agriculture college and may have an MBA. Trades commodities. Tracks inputs/outputs acre by acre.	20% of U.S. acres, about 70,000 farms Growing share fast	No.1 Top Target Customer
Sun Downer	Part-time farmers. Running the farm as a lifestyle choice, not to make money. May use computers in the city, but the farm is an escape from technology. Price focused in buying seed and equipment.	About 10% of U.S. acres, About 35,000 farms Growing slowly	Not a target
Livestock Farmer	Looks for quality, but growing grains is not the top priority. Might be interested in a service to take the problem off his hands, but using his land. Includes dairy, poultry, and pork farmers.	14% of U.S. acres, 89,000 35% Stable	No.2 Priority Find third parties who grow grains on their land.

Figure 2.5   Farmer Customer Segmentation—The Major Groups in Grains Production, data circa 2006

Take a good look at the figure because this is what we believe you need to create for your venture!

TIP: FIND THE "RIGHT" CUSTOMERS_____

This book is not about starting a Mom & Pop pizza shop or other "lifestyle" business. It is about building a dynamic, high-growth, and innovative venture that creates and sells technology or services that employ advanced technology. We trust that this matches your goal.

With that said, innovative companies must find customers with innovative attitudes and behaviors—who will invest in innovative products and services, and who appreciate the benefits of innovation for improving their lives and businesses. They are much different than customers who take a wait-and-see approach to anything that is new and different. So, as you conduct your customer groupings, look for people on the leading edge of the wave—who enjoy your "secret sauce." Avoid the laggards.

Innovative customers are less cautious about adopting new approaches and technologies. The laggards, in contrast, want to wait and see. They drag out the sales decision process for longer than a startup company can afford to wait to hear the cash register ring. You can get to them later, after you've built credibility and leadership in your niche.

The bottom line of this discussion on customer segmentation (or grouping if that is an easier term for you to use) is that it is insufficient for the entrepreneur to say that all customers within a given market are the same. There are likely to be distinctly different types of customers who want different things, act in different ways, and have preferences for buying products or services that are very different.

With Segment and Target Customers in Hand, Now Look at Their Different Uses_____

Defining Your Market Niche as a Function of Customers and Their Uses

This is one step beyond simple customer segmentation or grouping. Now we begin the process of truly learning what makes customers *tick in what they do.*

In general, the innovator—either as entrepreneur or corporate entrepreneur—wants to create a powerful brand backed by equally powerful products or services that dramatically *improve the customer's experience.* That might be in finding the best way to avoid a traffic jam when driving a car, securing all of your company's data across all types of computer systems, or simply enjoying a new type of beverage. *Improving the customer experience* is in part substance—actually delivering the goods—and style, marketing the promise of that enjoyment or improvement, and then reinforcing those benefits with additional marketing to induce repeat purchases—be it for your product, your software, or your services.

Before we can get to the wonderful moment of defining a product, system, or service idea to dramatically improve the customer's experience, we've got some homework to do with the target customer. But this homework is going to be a lot more fun than going to the library or searching around on the Web. This is a hands-on, face-to-face type of homework.

We now proceed to an important template for gathering customer insights. We call it the Customer and Their Uses Grid Template. It is shown in Figure 2.6. On the horizontal axis are distinct groups of customers as we have defined them above—specific types of customers that share core needs and behaviors. We also indicated that in certain types of ventures, the customer is not the end-user. In enterprise software, an IT (information technology) manager might buy the software for all employees, just as a mom buys diapers for her new child. It is also important to estimate the relative size and value of each customer group within a target market. Let's say that we have a venture making a new consumer product in the area of healthy eating. We have a wide range of potential customers, from the young to the old. You can quickly search statistical databases maintained by government agencies to find out the percentage share of these various demographic customer groups. We find out from that work that Generation Yers and Baby Boomers are two large groups in terms of relative share of consumers. Then, in terms of "value," further research shows that the while Boomers spend more money on food consumption generally, it is the younger populations that are more focused on healthy eating—our target application.

Figure 2.6 The Customers and Their Uses Template

On the vertical axis is a second term: *uses*. A customer use is a key activity in their daily work, leisure, or learning. Uses in the food example above might include main meals, snacking, and "fast food." The intersection of the customer and their specific-use occasion forms the target market niche for the entrepreneur. Thus, our venture might target healthy "fast food" for Gen Y customers. Venture capitalists would call this our "addressable market," that is, who we are going to sell to and for what purpose they are going to use or apply our products or services. As someone planning a venture, you need to continue the research from Chapter 1 to determine specific sizes for the various customer groups on the Customers and Their Uses Template. Industry trade journals, research reports, magazines, and government statistical databases provide a rich set of information to help you define the size and spending value of your addressable market.

Entrepreneurs create businesses and make money by solving the problems of individuals, companies, and governments. The two sides of the equation of a target market niche—the customer and the use—exist because the entrepreneur improves the work, function, or enjoyment of specific groups of consumers, companies, or government organizations. It is that simple. Without understanding both sides of the equation—and in particular, digging into what we call *specific use cases*—you cannot form that product, system, or service idea that will have a transformational impact on the customer's experience.

Use cases are categorizations of activities. In an earlier book, we described how Honda thinks about use cases in designing its new cars.[4] Driving to work is a use case. Driving off-road is a different use case. Using your vehicle to move furniture—or to party with your friends— is yet another use case. These also mean different things for different types of car drivers/ customers. Partying for your 50-plus-year-old authors is a completely different matter than when you, our readers, go out to party. Honda even distinguished between older guys like your authors who don't act their age and those who do. Each one of these use cases and customer behaviors affects what a car manufacturer might build into its vehicles. This might include flexibility in the seating to accommodate the move-in, move-out use case scenario or a high-volume bass in the sound system for the young party scenario. The amount of seating in the car, the type of tire and chassis built into the car, and the styling of the exterior for the "youthful" or "young at heart" customer are all types of design decisions that can accommodate particular use case scenarios for different types of customers. The whole idea is to find opportunities to improve the customers' experience. For a venture, Honda finds its market niche in the combination of the customer and the uses served. HondaJet is the result of a corporate venture to provide a fuel-efficient craft for the business passenger (the customer) who desires a "taxi" flight between regional municipalities (the use).

Understanding customers and their uses works great for new ventures because it allows the entrepreneur to be much more specific about the *who, what, and how* for customer problem solving. For example, reading this book presents its own use case. Learning entrepreneurship is a use case, just as learning managerial finance is another. And these apply differently depending if you are an undergraduate business or engineering student, a 25-year-old MBA student, or a corporate entrepreneur working through this book to start a new venture inside your corporation.

Digging Deeper Into Customers' Uses

Consider these additional examples of the power of understanding use cases to develop distinctive solutions:

- *Products: Apparel.* Within the glove category, there are many use cases: gloves that keep hands warm (and/or dry) during the winter or gloves for more specialized applications. 3M is a wonderfully innovative and intrapraneuerial company. It has created special gloves (called Greptile) for playing golf, baseball, softball, and race-car driving. Military, construction, and health care will be future market applications. In each case, gloves use the same materials technology but vary in style, fit, and tactile feel that serve each customer's specific purpose. These gloves function equally well in wet or dry environments and provide the performance and safety needed by these various applications. Here, the Greptile material is *a platform* from which various stylings and designs are created to fit particular use case situations. 3M's target market niches for this corporate venture are high-performance gripping (the use) by a set of specific customers (golfers, soldiers, carpenters, etc.).

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[4] Meyer, M. H. (2007). *The Fast Path to Corporate Growth: Leveraging Knowledge and Technologies to New Market Applications*. New York: Oxford University Press. See Chapter 6, which focuses on the concept development of the Honda Element SUV.

- *Software:* You are a guy and only buy presents for your wife or girlfriend at the last second before a major holiday or event. You never get the advantage of special sales because you never read the advertising sections of the newspaper to learn about them. Well, cell phone manufacturers such as Nokia and software companies such as Microsoft are investing heavily into location-based mobile services. Let's consider one use case: You are walking down a fancy shopping street with your cell phone GPS-enabled. By looking at your location, the service provider knows which stores are nearby. Also, by looking at your cell phone registration and monthly billing, the company has a rough idea of your disposable income and a very clear idea of your gender. Now, let's say that you receive a mobile alert that says that if you stop by a particular store located right down the street in the next hour, you can purchase that nice leather handbag for your better half at a 15% discount. Further, you can redeem the discount at the point of sale by showing them a coupon code contained in the advertising message. Simple, targeted, and value-added (if not a little bit intrusive!). By the way, this already works in certain foreign countries and was pioneered by a hot, venture-backed startup (Enpocket) located right on Newbury Street in Boston (a fancy shopping street!) that was bought for a hefty some by Nokia. The firm's target market niche was location-based mobile advertising to accelerate shopping (the use) by young, affluent adults (the customers).

- *Services:* You are elderly and your greatest single fear is falling down in your home alone, breaking your hip, and dying without anyone knowing about it. That's a compelling need. A brilliant medical device engineer from Johns Hopkins develops an ultrasensitive sensor cone that can be programmed to detect the vibrations of a person falling (as opposed to a book or lampshade). Further, he builds in wireless connectivity. A hungry entrepreneur teams up with the engineer to create a new home monitoring capability and invests the money needed to build backend server software to alert families and emergency medical services should falls occur. "You will never die alone" becomes a powerful selling message for the elderly customer, as does relief from fear and guilt as the message for the families. The venture's target market niche becomes home medical monitoring for the elderly (the customer) to detect falls (the use).

As you can see, the entrepreneur as innovator needs to put him or herself into the shoes of the customer and feel what the customer feels. And the best way to learn about the major uses within a customer group is through direct contact and observation. You can do Web searches until your eyes glaze over, but the only way to truly understand different types of customers and their uses in a particular segment is to leave your desk, put yourself in a place where you can observe, and talk to potential customers in market segments of interest.

For example, we had an undergraduate student team that developed a social networking Website for new types of Xtreme sports. The team went to these sporting events to talk with prospective customers. They then got to know the business people behind the sport (e.g., the league owners and product manufacturing sales representatives who often hang out at these competitions). They found a wealth of information existed around the actual sporting activity.

Or, another MBA team created a firm to bust into the paid obituary market—perhaps the only real money-maker left for newspapers. This team wanted to provide obituaries online and let them last for weeks if not months for loved ones to read. As you might expect, asking families of the elderly what they wanted for an obituary before the parent died was awkward. Instead, they visited several large funeral home corporate chains and found a great need to help sell a new high-value obituary service to consumers—multimedia, in fact, with videos as well as text. One of the funeral home chain managers suggested going into revenue sharing model with funeral home owners. Through that one conversation, the startup had found an amazing channel to the consumer.

Here are some additional ideas on how to best define distinct customer groups and uses for the purpose of venture concept creation:

- If you are developing a consumer product, such as a new type of healthy prepared meal or snack: Go to different types of grocery and specialty stores and discretely observe who is shopping in the aisle where your products would logically appear. For smaller retail outlets, store personnel are quite approachable and will give you a wealth of information. Customer groups can be differentiated by *what* they like to buy, *where* they buy, and *how much* they are willing to spend.

- If your venture concept is a piece of enterprise software—for example, a customer analytics package for financial services firms: Visit professionals working in the marketing and customer service departments of local financial services firms, with an eye on large companies versus the small, independent ones. Different types of enterprise customers come in the form of industry or vertical markets, market, size, and sometimes, geographical location.

- If your venture is a new type of travel or tourism business: Visit travel agents as well as the locale to which you wish to target your business. Identify the different types of travelers—business travelers, families, young couples, or individuals seeking new adventures. Each of these customers has its own behaviors, needs, and buying preferences.

"Needs," "attitudes," "behaviors," and "demographics" are very important words with specific meanings. We define each of these terms as follows:

- Core needs are the customer's specific desires and frustrations as these relate to a specific "use case." These needs drive the features, performance, and price of a product or service. Uncovering core customer needs lies at the heart of entrepreneurial innovation. We like to think of these core needs as, in part, being derived from the attitudes and behaviors defined next.

- Attitudes are cognitive value or belief systems of end-users and buyers for those use cases. An example might be a young male's attitude toward driving versus Mom driving the kids to school versus professional commuters. In a corporate setting, "you can never get fired by selecting IBM" might be the attitude of mature IT managers, whereas younger ones prefer to go with "open systems" and use smaller, independent service suppliers to get the job done.

- Behaviors represent the physical activities surrounding the use case—including preferred places and frequency of purchase. Once again, using the car example, a young male wants to move lots of "stuff" and "party" with his buddies in his transportation; Moms and commuters display other behaviors, be it driving around with lots of kids or requiring an "office in the car" through communications technology. Purchasing behaviors are important here as well. Customer behavior at the place of purchase provides essential insights for consumer-focused entrepreneurs. For example, it is well known that males generally do not like to shop down the aisles of a grocery store. Rather, they prefer to shop the periphery, which includes the produce, deli, and chilled sections of the store. An entrepreneur trying to make tasty, convenient meals geared for husbands (who may have to cook for their family one or two nights a week) needs to know this. The entrepreneur had better be thinking about new meal formats for the chilled section of the store rather than stuck in the frozen aisle. Otherwise, most male shoppers will never see those products, regardless of need.

- Demographics are age, gender, and ethnicity based for B2C ventures, or industry sector, geography, and size of a company for B2B ventures.

You need to understand not only the present realities but also the evolving dynamics for each of these four areas for the target customers and buyers of your proposed venture. *There is no other path to success*—other than perhaps pure luck or years of trial and error through which you learn these things "the hard way."

In fact, often the very things that tie a set of individuals or business customers together into a "group" are common demographics, attitudes, and behaviors. That commonality induces a generally similar set of attitudes and belief systems. You can often learn all of these factors by simply observing different customers in their places of work, leisure, and in their homes. This applies to both business and consumer products and services. Collectively, these produce a set of core needs that become the target for your rifle-shot strategy in a venture.

Further, within any given customer group, there are often "tensions" in key attitudes, behaviors, and core needs. Understanding this tension—and relieving it with an innovative product or service—can be the genie in your venture bottle.

For example, we all experience tension when buying food. We want our food to be healthy, but we also want good taste. More and more people are experiencing an analogous tension in their car-buying decisions. They want excellent fuel economy, but they also want enough power to accelerate out of dangerous traffic situations. Ventures that successfully eliminate buyers' tensions are one step closer to commercial success.

*** *** ***

In this chapter, we have shown you how to identify different types of customers within a target industry sector, and then how to think about their different types of uses for various products, systems, or services. By finding the intersection between customers and target uses, you come to a very specific definition of your target market niche. We also referred to this as your "addressable market." These are the customers and their problems that your venture will address. The next chapter examines how to understand how these target customers think, feel, and act, which is the foundation of designing distinctive commercial offerings and figuring out how best to sell them.

Reader Exercises

Apply the Methods to a Sports Venture

a. Develop a market segmentation grid for your favorite sport. First, list all the potential segmentation criteria, then experiment with different combinations of two- or three-dimensional grids. For customers, consider age as well as gender as a potentially "hard," measurable, and actionable criteria upon which to construct the axis of the grid. Then give attention to customers' uses which are a reflection of their various attitudes toward physical activity, including sports (e.g., learning, recreational play, and competitive/professional play). Draw the market segmentation grid that you think is best.

b. For one of your segments, such as recreational play for young adults, identify three distinctly different types of customers, employing your common sense. You can even give them names, such as the "weekend warrior," "the marathon man," or "outdoor Susan" to reflect the *personas* that emerge from your segmentation chart. These customers should have different attitudes, behaviors, and motivations in playing the sport. That is the definition of a clear customer group. Then ask a friend or two who play the sport to tell you what they think of your customer groupings.

c. Then, as a prospective entrepreneur, consider all the different products that are possible for your grid, such as balls, racquets, and clothes. Next, consider all the different services possible for your grid: camps, clubs or leagues, facilities, learning CDs, archived multimedia, and even online communities. Find a product that applies to multiple market niches and determine how that product would have to vary, if at all, to serve those different niches. Then do the same thing for a service—how would it have to vary to serve different market niches? Use your market segmentation grid to show the application of that product and its variation; then do the same for the service.

Draw each framework on a separate page and write a sentence or two that explains your reasoning.

Apply the Methods to Define the Addressable Market for Your Venture Idea

Next, we want you create the Customers and Their Uses Template for your own venture idea.

a) Label the columns and rows for the Customers and Their Uses Template (Figure 2.6) for your venture. That means identifying the specific customer groups and their primary uses for products or services, such as the ones you might create.

b) Next, hit the Web and find data to support the relative size and "value" or spending for each customer group. You might get lucky and find data for the size and spending for each "use" as well. For example, your authors enjoy fishing. We are both older, experienced fisherman (and we spend a lot of money on the sport). Another customer group is the younger sport fishermen who don't fish as often and prefer not to purchase $500 rods. For the customers' uses, we have freshwater fishing and saltwater fishing and within these, fishing for specific types of fish. A quick search of "recreational fishing demographics" brings us to all the data we require. An entrepreneur could then target products or services for young beginners versus older, experienced customers, and focus on particular types of fishing (e.g., fishing for trout versus fishing for striped bass).

c) After constructing your grid, now circle what you believe to be your primary customer and customer use for your venture's offerings. Be prepared to defend your choices.