One

Marketing in an Entrepreneurial Context

So, you want to be an entrepreneur! That's great. It can be a challenging and rewarding experience. And if I asked you why you wanted to be an entrepreneur, I bet many of you would say it is because you want to make money. Well, that is the first mistake most entrepreneurs make. In fact, the actual purpose of an enterprise is not to make money. Instead, experts tell us that the actual purpose of an enterprise is the creation and retention of satisfied customers.[1] How well you perform these vital tasks will be reflected in the level of profitability of your enterprise. In other words, your profit is simply the scorecard with respect to how well you stay wedded to your real purpose.

You must understand this important point or your entrepreneurial career is likely to be truncated. Moreover, it is critical for you to understand marketing's role in creating and retaining satisfied customers. Simply put, it is marketing that enables you to discover, create, arouse, and satisfy customer needs and wants. In entrepreneurial terms, we often say that a successful enterprise is built by a smart entrepreneur who finds a source of "market pain" and creates a "unique" way to cure it!

For example, consider the young entrepreneurs who started Three Dog Bakery. Dan Dye and Mark Beckloff recognized that the dog treat category was a multibillion-dollar category in the United States and growing at a double-digit rate. They were also smart enough to recognize another key trend: dog as family member. That is, particular owners of dogs viewed themselves as "pet parents" and wanted only the very best for their dogs, including healthy, all-natural, and tasty treats. But many pet parents were unhappy ("market pain") with current products being marketed. The solution was to offer the pet parents an "innovative dog bakery" where dog owners could come (with their dogs) and buy products that they trusted and that their dogs would love.

The result was a tremendous success. The company has opened up franchise-owned stores all across America and have expanded into Canada, Japan, and Hong Kong. The company also distributes its dog treats through major retail chains, including Walgreens, Kroger, and Wal-Mart. The company has also expanded its line of product by adding cat treats and a line of premium dog food. Moreover, like many successful entrepreneurial firms, Three Dog effectively operates in a multichannel format including online, company and franchised owned retail store bakeries and in retail chain partners' outlets. Finally, like many good, socially conscious entrepreneurs, the founders of Three Dog Bakery have also started a nonprofit foundation. The Three Dog Bakery Foundation is a 501(c)(3) organization that offers financial assistance to any properly licensed, not-for-profit dog and cat groups with a focus of rescuing dogs and cats. Three Dog Bakery is an example of a successful entrepreneurial startup that was based on a key concept in marketing—discovering customer needs and satisfying them. Or, as we say, finding a source of market pain and finding a unique way to alleviate that pain! Three Dog Bakery also illustrates the need for entrepreneurs to consider how to sustain the growth for their enterprises. In this case, scaling up the business via franchise, expanding geographically, and adding new product lines (in their case, cat treats and dog food) and finding novel ways to reach customers including online.

Marketing: Defined

Many people are confused or have misconceptions about the concept of marketing. First, do not confuse marketing with advertising, selling, or common sense. Although advertising is one of the more visible forms of marketing, it is but one small element of marketing. Marketing is not selling. In fact, some experts suggest that if entrepreneurs engage in effective marketing, it can reduce the need for selling. Marketing is not simply common sense. While good entrepreneurs are often perceptive and intuitive, these traits alone are not sufficient for making successful marketing decisions. Effective marketing requires intimate knowledge and understanding of consumers and competition that goes beyond simple common sense.

Second, be wary of the many misconceptions about marketing, including many negative ones. For example, marketing is not hucksterism; it is not selling unwanted things and taking the customer's money. Nor is marketing about manipulating, fooling, or tricking the customer.[2] Instead, marketing is the activity for creating, communicating, delivering, and exchanging offerings that benefit the organization, its stakeholders, and society at large.[3] This definition stresses the importance of delivering genuine benefits (or value) in the offerings marketed to customers. As an entrepreneur, your business venture must create and deliver customer benefits or value. If not, there is absolutely no reason for customers to buy from you. Moreover, while gaining your first customers is critical for your venture you must also use marketing to retain those customers, by satisfying those customers and forging long-term relationships with them. If you do, you will find that these customers will remain loyal to your enterprise and can be a valuable resource in recommending your business to others.

The Seven Steps in the Marketing Process

As an entrepreneur, you will have to understand and follow the seven steps in the marketing process to create and sustain a successful venture:

1. Identify and understand customer needs.
2. Develop products, services, or experiences to meet those needs.
3. Price the products, services, or experiences effectively.
4. Inform customers that these products, services, or experiences exist.
5. Deliver the products, services, or experiences efficiently and conveniently for the customer.
6. Ensure customer satisfaction during and after the exchange process.
7. Build long-term relationships with the customers.

Northeastern University alumnus Reuben Taube and his brother Ari find themselves in the Entrepreneurial Marketing Spotlight by demonstrating that they have mastered many of the steps in the marketing process.

Entrepreneurial Marketing Spotlight

Reuben and Ari Taube are entrepreneurs. And, their success can be largely attributed to the fact they embraced the marketing process. First, being marketing oriented they discovered that many snack consumers were looking for a more healthy, organic, and gluten-free product. Second, they also discovered that there was a staple grain called sorghum that practically grows anywhere on the globe and is inexpensive, healthy, and gluten-free. Third, based on these discoveries they developed a unique product designed to meet the needs of this health-oriented snack consumer. It is called Mini Pops, an alternative to traditional popcorn! And, this new product is making a splash in the multibillion-dollar U.S. snack market. Mini Pops have fewer calories, less saturated fat, less sodium, and more protein, calcium, and fiber than popped corn. They are also high in iron, antioxidants, and heart-friendly policosanols. Additionally, sorghum grains have softer hulls than corn, preventing those awkward moments of sticking your fingers in your mouth trying to pry uncomfortable wedges from between your teeth. Mini Pops come in plain and seven other flavors such as the Nano Pepper & Herb and the Baby White Cheddar as well as in bags of raw kernels that you can pop and flavor yourself. The Brothers Taube were able to effectively price their offerings (a 16-ounce bag of raw kernels sells for $13 and the six-ounce flavored bags sells for $3.50). They also invested in promotion to inform consumers about the availability of the new product and successfully established distribution to get the product to the customer, both from the company's website (the Mini Pops shop) and at major retailers including Whole Foods. Only time will tell if the brothers can complete the rest of the marketing process (i.e., ensure satisfaction and build relationships with customers). But, they are off to a great start and we welcome them to the entrepreneurial marketing spotlight.[4]

Why Marketing in New Ventures Is Different

Marketing in an entrepreneurial context is different from an established corporation. As an entrepreneur, you will face different marketing issues compared to executives in a corporate environment.

For example, unlike your corporate counterparts:

- The entrepreneur must use marketing to identify new products, services, or experiences to market to new customers and not simply use it to sell existing products and services to existing customers.
- The entrepreneur must use marketing to obtain his or her "first customer" (gain the first dollar of business) and not simply manage an existing customer base.
- The entrepreneur must use marketing to build a new brand and not simply manage an existing brand.
- The entrepreneur must use marketing to establish effective marketing channels of distribution and not simply manage existing distribution methods.
- The entrepreneur must use marketing to establish initial price points for his or her offerings and not simply manage current prices for existing offerings.
- The entrepreneur must use marketing communications to persuade customers to try his or her offerings and not simply remind customers to continue to buy.
- The entrepreneur, because of resource scarcity, must find creative ways to leverage his or her marketing efforts, especially early in the venture startup phase.

Unfortunately, venture failure continues to be the rule and not the exception. But marketing can help you improve your odds of venture success. It can help provide you with a solid understanding of customers and markets, identify and validate the right opportunity, and determine how best to capitalize on that opportunity. One of the biggest problems faced by many entrepreneurs is the tendency to chase "too many rabbits." In other words, you must focus and try not to be all things to all people. Marketing can provide this focus. In short, it can help you zero in on the right customers—your **target market—**the specific group of customers toward which you direct your marketing efforts or marketing program. In the entrepreneurship world, particularly from the investor's perspective the target market is often referred to as the "addressable market." It is marketing—specifically, marketing research—that allows you to determine this target market—the addressable market—and then enables you to configure your marketing program.

Using Marketing to Discover and Satisfy Customer Needs

It is important for you to recognize that if you wish to improve your odds of venture success, you must use marketing to discover and satisfy customer needs. The discovery process sounds simple but it is not. Thousands of ventures fail every year in the United States, and in many cases, the failure is a direct result of the entrepreneur failing to carefully examine customers' needs or simply misreading those needs. Granted, it is often difficult to get a precise reading on what the customer needs. But as an entrepreneur, you have to be willing to be persistent and creative to uncover customer needs.

One of the best ways to do so is to go into the market to talk with and listen to customers. Through dialogue and active engagement with the customer, you will gain an understanding of the customer. In the entrepreneurship field, we often refer to this process as obtaining "the voice of the consumer." Voice of consumer research will be discussed later as an important part of finding and evaluating business opportunities.

After properly discovering customer needs, the entrepreneur must begin the task of designing his or her business to satisfy those needs. In fact, recent research involving 45 successful entrepreneurs revealed that delivering customer satisfaction was a key imperative for venture success.[5] But, as stated earlier, your venture cannot satisfy all consumers' needs, so you must concentrate your efforts on a specific group of potential customers—your target market. Selecting the proper target market involves the process of **market segmentation**—placing customers into groups (segments) that (1) have common needs and (2) will respond to a specific marketing offer. We will discuss segmentation in depth in Chapter 5. For now, it is sufficient that you know that you will select a given segment (or segments) to pursue—your target market(s)—and create the marketing offer, designed to appeal to the target market and satisfy its needs. This marketing offering is called your **marketing mix.** The marketing mix is what gets integrated into a tangible marketing program that your business will use to gain and keep customers. For Product-Based ventures, your marketing mix consists of five elements, or **5Ps:** product, price, promotion, place, and people. For a Service-Based venture, the marketing mix consists of eight elements, or **8Ps:** product, price, promotion, place, people, physical evidence, process, and productivity.

The 5Ps of Product-Based Ventures

A marketing program for a Product-Based venture—a venture that markets "tangible" or physical products—would consist of a combination of five marketing mix elements. The 5Ps are used to create, communicate, and deliver value to your customer:

- *Product:* The product to satisfy the customer's needs
- *Price:* The cost to the customer
- *Promotion:* The means of communication between you and the customer
- *Place:* The means of getting the product into the customer's hands
- *People:* The individuals who will work with you and your venture

Figure 1.1 shows the 5Ps for Sephora, a very successful beauty and skincare enterprise.

Figure 1.1 The 5Ps for Sephora

Product: Broad range of quality skincare, makeup, and fragrances for women and men (nationally branded and private label)

Price: Above market

Promotion: Public relations, catalogs, customer loyalty program, website, social media, and mobile marketing including an iPhone app

Place: More than 500 stores (more than 200 inside JC Penney stores) in twenty-four countries, online (www.sephora.com), and 1-877-Sephora

People: Highly trained, knowledgeable, and customer-centric consultants

Sephora has a unique open-sell environment with more than 200 brands plus Sephora's private label. The company emphasizes training of its people and even opened Sephora University in San Francisco to educate its personnel on both products and customer relations. The company also has one of the world's top beauty website and social media including an online beauty community as well as mobile technology including an iPhone app. The company has achieved outstanding year-over-year sales growth since its launch.

The 8Ps of Service-Based Ventures

A marketing program for a Service-Based venture—a venture that markets "intangibles"—would consist of a combination of eight marketing mix elements (8Ps):[6]

- *Product:* The product (service) to satisfy the customer's needs
- *Price:* The cost to the customer
- *Promotion:* The means of communication between you and the customer
- *Place:* The means of getting the product into the customer's hands
- *People:* The individuals who will work with you and your venture
- *Physical evidence:* The "tangibles" that surround your service
- *Process:* The way the service is created and delivered
- *Productivity:* Balancing service output with service quality

Figure 1.2 shows the 8Ps for Southwest Airlines, one of the most successful entrepreneurial airline startups in America. In fact, Southwest Airlines went from a small startup with just a few planes to a major carrier in less than 20 years. It has also been the most consistently profitable airline in the United States and has achieved high levels of customer satisfaction year after year.

Figure 1.2 The 8Ps for Southwest Airlines

Product: Low cost, no frills, convenience, point-to-point airline passenger service

Price: Low prices, below market

Promotion: Broad range of marketing communications, including broadcast television, sponsorships, and its website

Place: Major markets but often in secondary airports adjacent to major airports to keep costs down

People: Specific emphasis on training to achieve excellent customer service

Physical evidence: Keeping the planes clean and safe; allowing employees to dress casually; and strong branding, color language, etc.

Process: Using the same plane type to make it easier for employees to manage operations and making it easy and simple to fly with Southwest, including online booking

Productivity: Key emphasis on a 15-minute turnaround time (getting the plane ready after landing and getting it back in the air safely)

Market Fulfillment Versus Market Creation

It is safe to state that most new ventures are based on the concept of market fulfillment. That is, the entrepreneur enters an "existing market" and uses the conventional marketing process. But some new ventures are based on "market creation"—creating a new market that did not currently exist. In this case, the consumers generally have no idea about a need for such a new product, service, or experience.

In the case of market fulfillment, the conventional marketing process of discovering and satisfying customer needs really does work quite well. But it does not work so well when an entrepreneur is attempting to create entirely new markets.[7] Henry Ford, famous automobile pioneer, once said, "If I asked the customer what they really wanted, they'd have said a faster horse!"

Basically, Ford was telling us that when we try to discover what customers want, they will often simply ask for better versions of existing products. But this approach will not help an entrepreneur who wishes to produce breakthrough or new-to-world innovations. These concepts are radically different and are sometimes beyond the imagination of the customers. Thus, customers may not recognize that they need or want such innovative concepts. For example, FedEx created the overnight package delivery market, a market that did not previously exist and a market that customers did not know could exist. CNN created the 24/7 cable news market, and again, customers did not imagine such an offering being developed. A more recent example is the "flying car." The Terrafugia Transition is a two-seat aircraft designed to take off and land at local airports and drive on any road. According to entrepreneur and creator Carl Dietrich, this product changes the world of personal mobility. Travel can now become a hassle-free integrated land-air experience. If you want one of these new flying cars—or as the company calls it—"a roadable aircraft"—you can place a deposit of $10,000 to reserve one. After that you'll have to come up with another $269,000 to complete the purchase! [8]

So, in short, entrepreneurs of new-to-world concepts really have no market at the time of invention; they have to create one. In doing so, these entrepreneurs go beyond the conventional marketing process and often create markets with enormous potential for sustained growth.

How Social Media Is Changing the Entrepreneurial Game

An emergent concept is changing how business is done, including how consumers shop for and buy products and services. It is called *social media*. Many existing corporations are struggling as to how to harness and manage this concept. In fact, many are using social media in the wrong ways. At the same time, however, social media is opening up opportunities for entrepreneurs who would be well advised to recognize and embrace it—correctly. Importantly, this also means using social media to complement but NOT replace your traditional marketing and promotional efforts.

But, first things first, you must understand social media. In my view there are several components to social media: (1) social platforms—the social networks/communities created by individuals and/or organizations such as Facebook; (2) social content—the blogs, photo, audio, and video sharing offered on these platforms; and (3) the overall social interactions taking place among members on these platforms. The power of social media is awesome. For example, Facebook has 700 million users; on Twitter there are 2 billion tweets made per month; and on YouTube there are 2 billion views per day. Thus, what is really important for you to know is whether or not you participate and use social media, your likely target market customers probably are. In other words, social media can be exclusively online consumer-generated efforts by customers who talk about, promote, build, or hurt brands. And, you might not be able to control this activity! On the other hand, social media can also be used by you to promote your venture and brand. In doing so, while you still may not fully control what customers communicate about your venture and brand, you can certainly influence it.

Using social media, customers are empowered to communicate with organizations and other customers. It is creating a new form of economy—what Erik Qualman calls *socialnomics*—where customers no longer search for products or services but rather find them via social media. In doing so, customers are changing the rules of business and the way they shop.[9] For example, a social media platform like Facebook has 700 million users who can instantly connect and communicate about a new business or brand—either helping to build it or destroy it! Therefore, as an entrepreneur you cannot be a bystander—you must actively engage and leverage social media. However, you must do it right or you will be rejected by the customers you are intending to reach and influence. Clearly, social media allows budding entrepreneurs with scarce resources to keep marketing costs low while directly reaching potential customers 24/7 on a global basis. But, again, you must play by the new rules of the game as established by customers who are present there. For example, Three Dog Bakery makes good use of social media including Facebook, Twitter, and a blog component on their own website. It engages its customers and offers them content with good value including important information about brands and advice on pet ownership and pet health.

In addition to using social media to communicate with customers, entrepreneurs also have many dedicated social media sites to help them with their entrepreneurial efforts. For example, there are many social networks established exclusively for entrepreneurs. Some of the better ones, in my opinion are (1) Entrepreneur Connect, (2) Partnerup, (3) Startup Nation, (4) Linkedin—but only the startups group on this site, (5) Biznik, (6) The Funded, and (7) Young Entrepreneur. You should check out these sites since they offer excellent resources for the aspiring entrepreneur like you.

The External Marketing Environment

Most entrepreneurs believe they are clearly in control regarding the type of business they wish to operate and how they operate it. However, businesses do not operate in a vacuum. In fact, a host of factors or forces in the marketing environment are largely beyond the control of the entrepreneur. These forces can be placed into five groups: social, economic, technological, competitive, and regulatory forces. Examples are what consumers themselves want and need, changing technology, the state of the economy in terms of whether it is expanding or contracting, actions that competitors take, and government restrictions. These external forces may serve as accelerators or brakes on marketing, sometimes expanding a venture's marketing opportunities and at other times restricting them. Importantly, successful entrepreneurs evaluate these forces to determine what business opportunities such forces might provide. And entrepreneurs continue to monitor these forces to determine how best to adapt their businesses to survive and grow.

This is in contrast to other, typically unsuccessful, entrepreneurs who treat these external forces as rigid, absolute constraints that are entirely outside their influence. These entrepreneurs simply fail to anticipate and respond to these external forces. But successful entrepreneurs who are forward looking and action oriented do take advantage of these external forces. In other words, they find opportunities that are created by these external forces by aligning their enterprise to capitalize on these forces. For example, one entrepreneur saw the rising incidence of obesity in America, an external factor seemingly beyond his control. But by observing and analyzing this trend, he developed a "plus size" retail clothing business and became a successful entrepreneur. Another entrepreneur noticed the aging population of America, especially the growth in the grandparent population who wanted to stay connected with their grandchildren. Capitalizing on this trend, the entrepreneur rolled out a new online business called "grandparents.com."

Five Forces in the Entrepreneurial Marketing Environment

As mentioned, there are **five environmental forces** in entrepreneurial marketing: social, economic, technological, competitive, and regulatory forces.

Social Forces

Social forces include the characteristics of the population, as well as its values and its behavior. Changes in these forces can have a dramatic impact on what opportunities are available to the entrepreneur. For example, there have been some major demographic shifts in the United States, including growing ethnic diversity and an aging population. If current trends continue, niche marketing opportunities based on ethnicity and age will continue to emerge. For example, some entrepreneurs have built their businesses to appeal directly to specific generational cohorts (i.e., for age groups such as seniors, baby boomers, Generation X, Generation Y)—adult diapers for seniors and wireless communication devices for Gen Y. Other entrepreneurs have launched businesses to appeal to specific ethnic groups, particularly ethnic food businesses.

A second social force is culture, and in recent years, Americans have experienced notable cultural changes that have affected consumer attitudes and values. For example, with more working women, the number of tasks to do is expanding, while the time available to do them is shrinking. This has led to the phenomenon of *time poverty.* Entrepreneurs are responding to this trend by creating ventures that help alleviate or reduce the consumer's time poverty such as delivery services, online shopping businesses, and ready-to-eat foods. Another emerging cultural trend is that Americans are becoming more experiential. That is, they are seeking new experiences and are willing to try new things, including travel, new forms of entertainment, and dining.

Economic Forces

Another environmental force is the nature of our economy. Entrepreneurs must recognize what is happening at the macroeconomic level of the economy, such as whether the economy is growing as well as determining the state of consumer confidence in the economy, which will affect business and consumer spending. At the microeconomic level, entrepreneurs must determine if the consumer actually has the ability to buy particular products and/or services. Many Americans have seen erosion of their actual spending power, and this has led to a trend called *customer value consciousness*. Many entrepreneurs have successfully built businesses to respond to this trend such as "dollar store" retail formats.

Technological Forces

Another environmental force is dramatic technological change. In fact, new technologies are forever changing the way consumers shop and what they buy. Moreover, new technologies are enabling entrepreneurs to create unique new businesses or enhance how they can conduct their businesses. One of the most important technologies that has changed the marketing landscape is the Internet. As discussed earlier, it was technology that gave rise to social media, which has fundamentally changed the rules of the game as it pertains to how consumers behave and how business is done. Technology, including the Internet has enabled new entrepreneurial enterprises to be built and fully operationalized leveraging this important technological force—in other words, developing and managing online or pure-play e-businesses that exist only in an electronic marketplace. A good example is Craigslist with its electronic classified ad business. Other brick-and-mortar enterprises also leverage the Internet as part of their overall marketing efforts. There are many other examples of successful online businesses, many of which are entrepreneurial ventures. As mentioned earlier, many leverage social media websites as well as their own highly interactive websites to conduct their businesses.

Now, the new capability of a completely wireless world is also enabling consumers to stay connected to the Internet 24/7 regardless of where they are, and this is also providing new opportunities for entrepreneurs wishing to provide goods and services to this wireless and mobile population. The Internet has also opened up global marketing opportunities and the rise of international entrepreneurship, where entrepreneurs can serve global markets without the constraint of physical or geographic boundaries. One thing you have to remember as a budding American entrepreneur is that 95 percent of the consumer population lives outside the United States. You should not have to confine yourself to your domestic market when opportunities to reach across time and space are now available to you.

Competitive Forces

Competitive forces in the external marketing environment are very important for the entrepreneur to consider. The first thing every successful entrepreneur realizes is that there is always some form of current competition in the marketplace. So, if you seek funding for your enterprise, never go to a bank, angel, or private equity firm and state that your business has "no competition." In one way or another, it certainly does. Therefore, competition should be considered broadly as any alternative that could satisfy a specific customer's needs. This includes a variety of forms of competition ranging from pure (direct) competition—where every company offers a similar product to a similar customer—to total budget competition—where customers consider spending their scarce resources across seemingly dissimilar offerings (e.g., spend money on an MBA vs. buying a new boat). The trend in America in terms of competition is that most industries and markets are highly competitive, and the consumer has tremendous choice in terms of providers. Therefore, an entrepreneur has to determine "how to compete" and "how to differentiate" his or her business from the existing competitors. We will discuss competition in more detail in Chapter 4. But for now, you must recognize that competition is an external force that will surely affect the type of business you will build and the competitive strategy you craft. For example, most entrepreneurial startups do not have the size and scale to compete on price, so most attempt to compete on a nonprice dimension emphasizing some clearly superior performance deemed valuable to the customer (e.g., great customer service).

Regulatory Forces

Entrepreneurs must also be conscious of the fact that regulatory forces can influence the nature or scope of opportunities in the marketplace. Regulations consist of restrictions that local, state, and federal laws place on business with respect to the conduct of its activities. Regulation exists to protect companies and consumers and ensure a competitive marketplace. New regulations and deregulation can both provide opportunities for entrepreneurs. Deregulation of several industries over the past few decades has led to the emergence of new enterprises. For example, deregulation of the U.S. telecom industry allowed for the startup of new long-distance telephone companies and later on the development of numerous wireless phone companies. Similarly, deregulation of the U.S. airline industry produced opportunities for many regional airline startups, including Southwest Airlines and JetBlue. Greater regulation has also provided opportunities for entrepreneurs. For example, when the Environmental Protection Agency enacted stronger regulations to ensure cleaner air and water, many companies turned to entrepreneurs for new technologies to ensure compliance.

Environmental Scanning

Environmental scanning is the process of continually acquiring information on the external marketing environment to identify and interpret potential trends that may lead to entrepreneurial business opportunities. Entrepreneurs engage in environmental scanning to uncover opportunities that others may miss or ignore. Many refer to the environmental scanning process as "trendspotting." For some entrepreneurs, the goal is to discover "the next big thing" or at least identify market trends that might lead to the development and launching of a new enterprise.

One of the things you will have to understand as you attempt to engage in environmental scanning is determining what is a true trend. A trend is the specific or general direction that a society is headed, which transforms things from what they are today to something different in the future. A trend makes a difference in the way people live and work. Trends are enduring phenomena that are radically affecting the way consumers behave in the marketplace and/or the way we do business. Trends create major structural changes in society: sociocultural, economic, or technological. A trend is different from a fad, which comes and goes quickly. A fad does not change society, but a trend does. Environmental scanning is an important skill for entrepreneurs to possess. To become a good scanner, you will have to do the following: [10]

- *Adjust your reading, listening, and viewing habits.* This means focusing on things of substance and relevance to your goal of becoming an entrepreneur. Of particular importance is becoming a broad-based reader to discover societal trends that underpin market behavior. You need to make a commitment to scan for information that will provide clues about possible marketing opportunities.

- *Network with the right people.* This means staying engaged with knowledgeable and informed individuals and to remain open to learn from these people. One expert suggests that you "take a neuroscientist, sociologist, psychologist, or artist to lunch." These people can provide insight into human behavior, how markets develop, and how consumers think and feel about their experiences in the marketplace. Networking also involves being tapped into your community to keep in touch with trends that are affecting the people who might become your customers.
- *Be self-observant.* This means spending time discovering what makes you tick, what is important to you, and what challenges or problems you face. You might not be the typical consumer, but this is a good exercise in uncovering what possible trends are driving your behavior. You can then determine whether what affects you may also affect others.
- *Challenge your assumptions.* In many cases, there are traditions in society and/or in particular industries that may have outlived their usefulness. For example, there is an American tradition for school-age students to have a two-month summer vacation. And most people do not know why this tradition persists. Well, it is a carryover from the agrarian society when children in farming families took time off from school to help harvest the crops. Today, many educational institutions are challenging this tradition, and this has led to entrepreneurial opportunities such as private schools offering year long programs or innovative summer learning programs.
- *Spend time watching and talking with customers.* This is perhaps one of the most important steps in the environmental scanning process. Good environmental scanners focus their time on interacting with customers to determine their current and future needs. Successful entrepreneurs, in fact, pinpoint not only where customers are today (in terms of needs) but where they are heading in the future. One of the greatest insights you can glean from spending time with customers is understanding their behavior as it pertains to consumption. In other words, what types of buying behavior do they engage in—what they buy, how, when, where and why. In Chapter 4, we will discuss the concept of "ritualistic behavior"—behavior consumers engage in on a consistent and recurrent manner and how this may help you uncover opportunities to enable customers to do so in cheaper, faster, better, or more satisfying ways.

What is also important is to recognize that not all trends affect all consumers or affect them in the same way. Moreover, for each trend you might identify, there may be other "countervailing" trends that might be important for you to consider. For example, a novice environmental scanner might conclude that the United States is experiencing a health-consciousness trend. But this may be only partly true. Many Americans are more concerned about their health, and this has opened up opportunities for entrepreneurs who provide health-oriented goods and services. But clearly not all Americans have embraced health consciousness since many individuals remain overweight in this country. Accordingly, some entrepreneurs are building businesses to cater to overweight individuals, including plus-size clothing companies.

Finally, good environmental scanners not only interpret trends but also act on trends that offer the best business opportunities. This is illustrated by the Noah principle. That is, "Predicting rain doesn't count, building arks does." Thus, environmental scanning requires both market vigilance and marketing action.

An Environmental Scan of the United States

An environmental scan of the U.S. marketplace might uncover key trends, such as those listed in Figure 1.3. These trends are categorized under the five environmental forces discussed earlier.

Figure 1.3 An Environmental Scan of the United States

Social	Growing ethnic diversity Aging Time poverty Value consciousness Eco-consciousness
Economic	Growth in electronic commerce economy Shift toward an experience economy
Technological	Diffusion of digital and mobile technologies Growth in biotechnology and nanotechnology Advances in medicine and medical treatments
Competitive	Increase in global competition Emergence of China and India as global competitors Mergers and acquisitions to improve competitiveness Emergence of entrepreneurial enterprises
Regulatory	Increased protection for intellectual property Increased emphasis on free trade Deregulation to encourage competition

Although the list of trends is far from complete, it reveals the breadth of an environmental scan—from the growing ethnic diversity of the American population to the shift to the experience economy to the increasing use of new technologies. As you examine the trends listed in Figure 1.3, you should be able to think about the implications of such trends and whether you can find opportunities that will stem from these trends.

As an entrepreneur, you have to understand marketing and its role in achieving venture success. Marketing helps you identify the right opportunity, and it plays a pivotal role in capitalizing on that opportunity. It is also critical that you understand the external marketing environment and recognize the opportunities and constraints it can place on your enterprise. Staying close to the market is the best way to ensure that you are building your enterprise on a solid foundation.

Key Takeaways

- Understand marketing and its central importance to entrepreneurial success.
- Use marketing to find a source of existing "market pain" and craft a unique way to cure it. Or, use marketing to create an entirely new market.
- Accept the reality of the social media era and learn to harness it for entrepreneurial success.
- Use marketing to zero in on the "right customer"—your target market.
- Go into the market to talk with and listen to customers (obtain the voice of consumer).
- Became an environmental scanner and discover truly sustainable marketing opportunities.

Entrepreneurial Exercise

Engage in some environmental scanning through broad-based reading or other means. Spot some trends. What are they? What type of marketing opportunities do these trends offer the potential entrepreneur? Now, make a list of two to three opportunities, and go into the market and talk to five to six potential customers to get their feedback on the opportunities. Do the customers agree there is an opportunity or not?

Key Terms

Addressable market 5
Marketing 2
Target market 5
Market segmentation 6
Marketing mix 6
Social media 9
5Ps 6
8Ps 6
Five environmental forces 12
Environmental scanning 15

Notes

1. Peter F. Drucker, *The Practice of Management* (New York: Harper & Row, 1954); George S. Day, "The Capabilities of Market-Driven Organizations," *Journal of Marketing* 58 (October 1994): 37–52.

2. Regis McKenna, "Marketing Is Everything," *Harvard Business Review* (January–February 1991): 65–79.

3. "AMA Adopts New Definition of Marketing," *Marketing News*, September 15, 2004, 1.

4. Personal Interview with Reuben and Ari Taube, March 2012.; and "Business Is Just Poppin; http://www.northeastern.edu/news/stories/2011/03/minipops.html, March 11, 2011.

5. Frederick G. Crane and Jeffrey E. Sohl, "Imperatives for Venture Success: Entrepreneurs Speak," *International Journal of Entrepreneurship and Innovation* 5, no. 2 (2004): 99–106.

6. Christopher Lovelock and Jochen Wirtz, *Services Marketing*, 5th ed. (Upper Saddle River, NJ: Pearson, 2004).

7. Frederick G. Crane and Marc H. Meyer, "Why Corporate America Cannot Innovate," Working Paper, Northeastern University, 2008.

8. Personal interview with Carl Dietrich, creator of the Terrafugia Transition, 2009.

9. Erik Qualman, *Socialnomics* (New York: Wiley, 2009).

10. Based on a speech delivered by Frederick G. Crane at the University of New Hampshire, fall 2004.

Two

Finding and Evaluating the Right Marketing Opportunity

As you know, venture failure is the norm and venture success the exception. Why is this? Well, in most cases, the reality is that many business failures can be traced back to the fact the venture was built based on a bad or wrong **opportunity.**[1] Yes, would-be entrepreneurs are constantly coming up with so-called possible opportunities for potential businesses. But some opportunities are simply better than others. One of the problems entrepreneurs often have is that they tend to focus inwardly (often because of their backgrounds and/or experiences) on opportunities that they think are good opportunities. Another major problem is that some entrepreneurs simply fail to find out what the potential customer thinks about the possible business! For some entrepreneurs, it is the "Field of Dreams" mentality—if you build it, they will come. But the cold, hard fact is that most consumers are pretty happy with the products and services they buy from existing businesses. They are not, in fact, waiting anxiously for you to start your enterprise. Such an assumption on your part often gets in the way of truly finding and evaluating the right opportunity and generally results in venture failure. Ultimately, it is recognizing, discovering, or creating the right opportunity and exploiting it effectively that leads to entrepreneurial success. In fact, forget about what professors who never started a venture tell you about what leads to venture success or failure. A study involving 45 successful entrepreneurs—real people who started real businesses—found that the "right opportunity" was the number one imperative for venture success.[2]

Thus, your first task is to find a way to separate the good opportunities from the bad. Once you accomplish that, you must then put a plan in place that is designed to capitalize on that good opportunity.

Opportunities Can Be Recognized, Discovered, or Created

There are actually three views regarding entrepreneurial opportunities. That is, opportunities can be recognized, discovered, or created. With opportunity recognition, the entrepreneur recognizes (deduces) that supply and demand are known to exist. The entrepreneur simply matches up supply and demand through an existing firm or a new firm (e.g., a franchise). With opportunity discovery, the entrepreneur inductively determines that either supply or demand exists (not both), and the other side has to be discovered. For example, there is demand for cures for certain illnesses but no supply, and there was a supply of personal computers (when first invented), but demand had to be discovered. Finally, with opportunity creation, the process used by the entrepreneur is abductive (inference), and neither supply nor demand exists in any obvious manner and one or both may have to be created (e.g., Beanie Babies). Thus, it is entirely possible that an opportunity is something that is "out there" waiting for the entrepreneur to recognize or discover. And, at the same time, it is also possible that an opportunity can be created by the entrepreneur![3] This is consistent with our discussion of market fulfillment and market creation. Either way, some opportunities are simply better than others, and you have to understand the characteristics of a good opportunity.

Characteristics of a Good Opportunity

Some leading experts in the field of entrepreneurship suggest that a good opportunity should possesses the following characteristics:[4]

1. It creates significant value for customers by solving a significant problem or filling a significant unmet need for what the customer is willing to pay a premium price.
2. It offers significant profit potential to the entrepreneur and his or her investors—enough to meet their risk/reward expectations.
3. It represents a good fit with the capabilities of the entrepreneur and the management team—that is, you have the experience and skills to pursue it.
4. It offers sustainability over time—it is not based on a fad.
5. It can obtain financing.

Also, as you will see later, a good marketing opportunity will have validation from the intended customer. In short, the true litmus test for the marketing opportunity is whether the customer thinks it is a good idea and would be willing and able to pay for it.

One of the first things you need to do is to determine whether the opportunity offers significant value to the intended customer. And, importantly, find out if the customer will pay the price to receive the value offered.

This value can come in various forms. For example, what you offer might satisfy the customer in a much better way than established competition. For instance, perhaps you simply deliver a product or service faster or more reliably than the competitors. Another way of creating value is by offering something that meets or exceeds the needs of customers that have not been satisfied adequately.

So, for example, assume some customers are currently unhappy with their airline options flying from Boston to Miami—either the cost is too high or the schedule is too inconvenient. A new carrier could emerge offering better prices and greater convenience and might become a successful new player in the market. Finally, another way of creating value is to offer something that satisfies the "latent needs" of customers. Latent needs are needs the customer is not even consciously aware of. In other words, you attempt to offer an entirely new solution to a problem that the customer was not aware he or she had.

Remember our discussion on market fulfillment versus market creation in Chapter 1? In the first two situations above, you are simply trying to meet existing needs better or to address existing dissatisfaction with available alternatives (market fulfillment: opportunity recognition/discovery). In the last situation, you are offering customers a novel solution to a problem they were not really aware they had. For example, you probably didn't realize that you had a need for an Apple iPod. But when Apple offered you this solution, you realized it was something valuable and something for which you would pay a premium price. In this case, Apple created a new market (opportunity creation).

Another characteristic of a good opportunity is that it also offers the potential for significant profit. Clearly, the notion of *significant* would vary depending on the entrepreneur. For example, for some of you wishing to own and operate a lifestyle business, the amount of profit you would deem significant is an amount that allows you to live a comfortable life. However, for those who wish to build a high-growth venture, a business that has financial investors, significant profit might mean a 20 percent profit margin on a $10 million business.

With a good opportunity, there is also a good "fit" between the opportunity and the entrepreneur (management team) in terms of industry experience and knowledge, as well as managerial, financial, and technical capabilities. Importantly, there is a good fit if you are passionate about the opportunity and are prepared to make a high level of personal commitment to capitalize on the opportunity.

A good opportunity is also one that offers sustainability over time. In other words, the opportunity is durable and will last over the long term. Many ventures are built on fads that come and go quickly, and thus the business itself may have a short life span. But a venture built on an enduring trend is more likely to produce sustained profitability over time. However, you must also recognize that sustainability in terms of customer demand is not enough. Sustainability also means you are offering something valuable to the customer that a competitor would find hard to copy. If what you offer is easily imitated by competitors, you do not have a sustainable opportunity.

Finally, another important dimension of a good opportunity is that it can obtain financing. If you seek out financing, your backers or investors must have confidence in the business venture and be willing to make the cash injection. If the backers or investors do not believe you have a solid opportunity, they will not financially support the venture.

Now, because Jeff Timmons, a leading entrepreneurship expert, has contributed so much to our understanding of entrepreneurial opportunities, he deserves a place in the Entrepreneurial Marketing Spotlight!

Entrepreneurial Marketing Spotlight

Jeff Timmons (now deceased) was the Franklin W. Olin Distinguished Professor of Entrepreneurship at Babson College. For more than four decades, Jeff was a pioneer in entrepreneurship education and entrepreneurial research. He published more than 100 articles and more than a dozen books on entrepreneurship. As a professor, he practiced what he taught and was directly involved in the real world of entrepreneurship as an investor, director, and adviser to private companies. Perhaps one of Jeff's greatest contributions to the field of entrepreneurship was his work that focused on entrepreneurial opportunities. Jeff believed that a superior opportunity has the qualities of being attractive, durable, and timely and is anchored in a product/service that creates or adds value for the customer, usually by solving a "painful" problem. He also stressed that successful entrepreneurs are opportunity focused. And he always emphasized that the best opportunities often do not start out that way. They are crafted, shaped, molded, and reinvented in real time and market space. Importantly, he always stressed that at the heart of the entrepreneurial process is the opportunity! And successful entrepreneurs know the difference between a good opportunity and a bad one. For his dedication to entrepreneurship and for his contribution to our understanding of entrepreneurial opportunities, Jeff deserves to be in the Entrepreneurial Marketing Spotlight.[5]

Finding Marketing Opportunities: Where to Look

I have argued for many years that environmental scanning may be one of the best ways to find optimal opportunities for your venture. In fact, a study of successful entrepreneurs revealed that these individuals engaged in environmental scanning.[6] And as you read in Chapter 1, environmental scanning includes not only examining trends/changes in the marketplace but also watching and talking to consumers. Closely looking for structural changes in society and determining how these changes will affect the needs of consumers (their "pain") is vital if you wish to pinpoint the right opportunities for your business. The major categories of environmental forces discussed in Chapter 1 that are assessed through environmental scanning were social, economic, technological, competitive, and regulatory.

Social Change

Numerous social changes (demographic and cultural) are having a dramatic impact on the types of entrepreneurial opportunities available in the marketplace. In Chapter 1, we discussed a few of these changes, including the growing ethnic population of America, the aging population, and time poverty. Each of these changes offers potential opportunities for the entrepreneur.

Another notable social change is eco-consciousness or going green. Many Americans are more sensitive about the impact their consumption has on the natural environment. This has led to demand for more environmentally safe or more environmentally friendly products, buying products that can be reused or recycled, or actually reducing consumption altogether. The trend toward eco-consciousness has opened up opportunities to a new breed of entrepreneurs called *ecopreneurs:* entrepreneurs who see opportunities through an environmental lens. For example, one entrepreneurial startup, Earthcycle Packaging, created an eco-friendly package made from a renewable resource called *palm fiber,* which composts in less than 90 days and provides a healthy contribution to the soil.

Finally, Americans are becoming more experiential. We are more willing to try new things and to seek out new experiences. Spending on foreign travel is up, and spending on entertainment and dining outside the home is up, particularly at ethnic restaurants. Some have referred to these experiential consumers as "trysumers"—consumers who are daring in how and what they consume. They are enabled by mobile communications technologies such as wireless phones and personal navigation devices. They can travel off the beaten path and still feel safe and in touch.

Since many of these trysumers want to try new things and not buy, new venture startups have emerged to cater to this group. For example, British Fractional Life is a venture that offers consumers a variety of asset-sharing options from luxury handbags, cars, and even helicopters, all available in shares or time slots. Some trysumers are even "trysexuals." In response, Match.com and other dating sites offer "try before you buy/rate before you date" services as well as casual encounters and speed dating.[7]

Economic Change

One of the major structural changes in our economy is the fact that we are now part of a globally interconnected marketplace and networked marketspace. This might present competitive challenges for you given that your competitors for your venture may no longer be simply down the street from you but in Korea, China, or India. On the other hand, this new economy also offers you access to the 95 percent of the population that lives outside of the United States. All too often, young entrepreneurs see opportunities only within the confines of America, and this is myopic thinking in the new economy.

Another key structural change in our economy is the shift from a manufacturing economy to a services, even experience-based, economy. We are building fewer things for people, and we are "doing" more things for people. In fact, 70 cents out of every consumer dollar is being spent on services, not tangible products. Therefore, it is not surprising to see why so many business startups are service based or experience based because that's where the money is!

Technological Change

Rapid and ongoing technological change is one of most important triggers of entrepreneurial opportunity. Nanotechnology (super-small, mini-electronics), biotechnology (e.g., implantable health monitoring systems), intelligent robots, and smart cars that can park themselves are all part of our consumer and competitive landscape. Technology is changing how we live and work and allowing us to do things that we simply could not do before. Information and communications technologies (ICTs), including the Internet, have become widespread, and entirely new business concepts have emerged as a result. For example, the Internet has given rise to Voice over Internet Protocol telephone services that now compete with traditional telecom providers. There is even IPTV, where you can watch television over the Internet, and there is commercial-free satellite radio. In addition, the emergence of social media is creating opportunities for some tech-oriented entrepreneurs looking to start their own social media sites or working on social media applications.

Some things the aspiring entrepreneur must do when assessing technological change and the possible opportunities it provides are to (1) determine the magnitude of the change, (2) examine the generality of the change, and (3) assess the commercial viability of the change. In short, the larger the technological change, the greater the opportunity. Technology that is general purpose (e.g., laser) will offer more opportunities than single-purpose technologies. And some technologies, while bringing about change, may not be commercially viable to build a business around.[8]

Competitive Change

The competitive nature of the economy is also evolving. There is both intense local and globalized competition in almost every industry sector. Moreover, mergers and acquisitions have also changed the competitive dynamic by either opening up or closing down opportunities for entrepreneurial firms. For example, the airline industry has seen a consolidation and an application of a hub-and-spoke design. This has allowed for entrepreneurial startups to enter the industry with point-to-point air travel design. Large consolidated companies that now focus on serving large business customers have also opened up opportunities for small entrepreneurial firms, which can cater to the overlooked small- to medium-sized enterprises (SMEs).

Another major competitive shift in the competitive landscape has been toward intertype competition. This means competition between seemingly dissimilar businesses. For example, the local bakery now must compete with the supermarket, the department store, the discount outlet, the local gas station, and even an online provider hundreds of miles away that will guarantee overnight delivery of custom cakes! Traditional brick-and-mortar companies are also now staking out a presence in the new online world as the number of pure-play online competitors increases.

Regulatory Change

Deregulation of industries often provides entrepreneurial opportunities, as was the case with the deregulation of the telecommunications and airline industries. On the other hand, increased regulation can also provide entrepreneurial opportunities. For example, one former student was an environmental engineer working in a corporate environment. When the Environmental Protection Agency (EPA) introduced new regulations on industries pertaining to waste water, she started a small company to provide consulting and testing to keep those industries in compliance. Similarly, new regulations on automobile emissions have given rise to new technology-based companies that work for or with automobile manufacturers to meet those requirements.

One key area of regulatory change involves the Internet and cable television market, where pro-market changes are leading to new opportunities for entrepreneurs. California, for example, has eliminated the municipality-by-municipality franchising requirement in favor of a statewide permit for companies seeking to deliver Internet and television services to homes and businesses. This will open up numerous opportunities for startups to enter the market at reduced costs and to do so more quickly.[9]

Finally, a recent study revealed that 80 percent of companies surveyed said they will increase their clean-tech spending over the next five years in light of current and future regulations pertaining to climate change. This will give rise to numerous opportunities for entrepreneurs who provide clean technologies.[10]

Veiled/Niche Opportunities

In many cases, entrepreneurs can find veiled or niche opportunities often overlooked or ignored by large corporations. A **veiled opportunity** (hidden, or not easily seen) is often uncovered (discovered) by smart entrepreneurs who stay in touch with the marketplace. For example, after conducting an environmental scan, one of my students discovered a strong trend in pet ownership. Most people could have easily determined this trend. But he drilled a little deeper and discovered a "veiled" trend—pet as family member. In this case, some pet owners viewed their cats or dogs as valued members of the family. Because of this, many pet owners wanted to protect their pets and would spend enormous amounts of money to keep them happy and healthy. Pet health insurance was a business opportunity that unveiled itself, and he built a successful business around this opportunity.

In other cases, smaller niche opportunities may emerge when you conduct your environmental scan. A **niche opportunity** is one that many large corporations deem simply too small to invest in. For example, one of my former students became a successful entrepreneur after he left his large corporate employer, which had refused to capitalize on an opportunity he identified. The value of the market for this product/business was around $50 million. But this particular company had an internal policy of not pursuing market opportunities that were less than $100 million in market potential. In this case, the large company believed this opportunity was a niche business and was uninterested in pursuing it. But this opportunity was certainly large enough for my student to pursue, and he did so successfully.

In many cases, veiled or niche opportunities surface by going into the marketplace and seeking out the unhappy, the underserved, or the overlooked customers. Many larger corporations simply fail to do so, and this provides a window of opportunity for you as an aspiring entrepreneur.

Evaluating Marketing Opportunities

After finding or identifying "possible" marketing opportunities, your job now is to evaluate those opportunities to determine which ones might really be the "right" opportunity for you and your venture. There are a variety of criteria one could use to assess the nature and scope of any given marketing opportunity.

Figure 2.1 provides an overview of some of the most important criteria that should be used to make this evaluation. For example, market size and market growth rate are important to consider. Typically, many entrepreneurs focus single-mindedly on seemingly large aggregate markets. Yes, market size should be considered, but the rate of growth in a market is also an important criterion. For example, the soft drink category in the United States is a multibillion-dollar market, but it is basically a flat market (no growth). On the other hand, the bottled water category is a smaller market but is growing at a rapid pace.

A very important evaluative criterion when screening opportunities is whether the opportunity creates significant customer value. This value can come in the form of a lower (better) price or some added-value dimension that the customer is prepared to pay for (e.g., better quality). Another key criterion is whether you have a well-defined target market. Who is the customer? If you cannot describe and define that customer, then your opportunity lacks focus.

Customer-felt need is also an important criterion. If consumers already have a strong felt need for the product/service, it will be much easier to build and grow your venture. On the other hand, if you have to educate the customer and create felt need, your time to first dollar may take more time. If customers are currently satisfied with alternatives available in the market, this might also be a show-stopper for your venture. Of course, the customer might not be "ideally" satisfied, and if so, this may provide you with some opportunity. To determine felt need and satisfaction, you must engage the customer and get his or her feedback. We will discuss an approach to doing so later in this chapter and again in Chapter 3 when we examine marketing research.

Figure 2.1 Marketing Opportunity Evaluation Criteria

Market size	Small..........Large
Market growth rate	Low..........High
Creates significant customer value	No..........Yes
Well-defined target market	No..........Yes
Customer-felt need	Weak..........Strong
Customer satisfaction with current alternatives	Happy..........Unhappy
Access to customers	Difficult..........Easy
Ability to command a premium price	No..........Yes
Sustainable competitive advantage	No..........Yes
Ability to build and sustain the brand	No..........Yes
Presence of valuable intellectual property	No........Yes
Competitors	Many..........Few
Barriers to entry	Yes..........No
Cost to enter market	High..........Low
Cost to scale up	High..........Low
Time to first dollar	Slow..........Quick
Red ocean or blue ocean	Red ocean..........Blue ocean
Profit potential	Low..........High
What does the customer think?	Hates it..........Loves it
Voice of consumer (% who will buy)	0%..........100%
Personal fit	No..........Yes
Can the opportunity obtain financing?	No..........Yes

Another screening criterion is access to customers. This is a two-dimensional construct: physical access (can you get the product/service to the customer—a channel issue?) and communications access (are you able to talk to the customer about your product service?).

The ability to command a premium price is also part of the evaluation process. There is no question that it is possible to start and grow a venture by being a "low-cost" provider. However, my bias for entrepreneurial startups is to avoid competing on the basis of price. I stress this because you might not simply have the cost structure that allows you to compete on price. If you feel you can do so and wish to pursue the "low-cost" provider route, then that is your decision. But most entrepreneurial ventures compete by offering significant value (superiority based on a nonprice dimension) and command a premium price, which is perhaps the best option for you to consider.

Another important criterion is whether or not your venture possesses a sustainable competitive advantage. A *sustainable competitive advantage* is a unique strength relative to your competitors. It can come in the form of higher-quality products, higher-quality customer service, speed of performance, lowest-cost, or customer intimacy. More and more often, we are seeing that a sustainable competitive advantage is coming in the form of the branding. **Branding** is an activity in which an enterprise uses a name, phrase, design, symbols, or combination of these and other intangible elements to identify the products or services of one marketer and to differentiate them from those of the competition. A **brand name** is a name, sign, symbol, design, or combination of these elements intended to identify the products or services of one marketer and to differentiate them from those of the competition. Brand building is going to be critical to the success of your venture, and an entire chapter in this book (Chapter 7) is devoted to this topic. The reason why branding is so important is that most forms of competitive advantage can be easily matched by competitors. Advantages such as price, product quality, and locational convenience tend not to be sustainable. But a good brand can be sustained and may, in fact, be the last bastion for sustainable competitive advantage.

Another critical evaluation criterion is whether or not there is a presence of valuable intellectual property. One common dimension of successful ventures is that they tend to have a valuable intellectual property. **Intellectual property (IP)** is defined as creations of the mind: inventions, literary and artistic works, and symbols, names, images, and designs used in commerce. IP is divided into two categories: (1) industrial property, which includes patents, trademarks, industrial designs, and geographic indications of source; and (2) copyright, which includes literary and artistic works such as novels, poems and plays, films, musical works, artistic works such as drawings, paintings, photographs and sculptures, and architectural designs. Rights related to copyright include those of performing artists in their performances, producers of phonograms in their recordings, and those of broadcasters in their radio and television programs.

An important piece of IP for many new ventures is a **patent—**an exclusive right granted for an **invention**, which can be a **product** or a **process** that provides a new way of doing something, or offers a new technical solution to a problem. To receive a patent your invention must meet certain requirements. For example, it must be of practical use; it must show an element of novelty (a new characteristic not previously known or discovered), it must show an inventive step which would not normally be deduced by the average person. A patent provides **protection** for the invention to the **owner** of the patent and this protection is granted for a limited period, generally 20 years. Many investors want to see that your venture has a patent(s).

If your venture does not hold/own a patent, another valuable piece of IP your venture could have is a **trademark—**a **distinctive sign** which identifies certain goods or services as those produced or provided by a specific person or enterprise. The origins of a trademark dates back to ancient times, when craftsmen reproduced their signatures, or "marks" on their creations or products. Trademarks may be one or a combination of words, letters, and numerals. They may consist of drawings, symbols, three-dimensional signs such as the shape and packaging of goods, audible signs such as music or vocal sounds, fragrances, or colors used as distinguishing features. A trademark provides protection for your enterprise (assuming you file to register the trademark—and it is approved) since you are given the exclusive right to use it to identify your products or services. The period of protection varies, but a trademark can be renewed indefinitely beyond the time limit on payment of additional fees. Trademark protection is enforced by the courts, which in most countries have the authority to block trademark infringement. Now, many people use the term *trademark* interchangeably with the term *brand*. However, consider the concept of a brand as a broader notion in that it includes both tangible and intangible components such as a trademark, design, logo, the name of the concept, as well as the activity of branding—attempting to differentiate your venture and its products and/or services from competitors by focusing on building and promoting the brand per se. In my view, branding is perhaps the most important asset for a venture. Yes, I think patents are important, too. But, a brand is a special type of intangible that enhances the business value of an enterprise to a greater extent than a patent. In fact, studies have shown that an average brand accounts for more than one-third of the value of an enterprise while very strong brands may account for two-thirds of the value of a business. Thus, the branding of your new venture and its products and services is going to be critical and that is why an entire chapter is devoted to this topic (Chapter 7).[11]

The number and strength of competitors currently in the market as well as any possible barriers to entry must also be considered. Low barriers to entry, for example, may make it easier for you to enter the market but at the same time also afford others that same opportunity. Your costs to enter the market, cost to scale up the business, and time to first dollar are other important factors to consider.

Whether or not you are entering a "red ocean" or "blue ocean" is also part of your analysis.[12] A **red ocean** is characterized by existing markets with established competition where the goal is simply to outperform rivals to steal share and grow. The red ocean is typically crowded, and profit and growth are difficult to achieve. Invariably, the red ocean is a place of cutthroat competition, which turns the ocean bloody (red).

In contrast, the **blue ocean** is a new market space where demand is being created and not fought over. The blue ocean is created by new value and innovation. For example, Cirque du Soleil created a blue ocean by offering customers a combination of opera, ballet, and circus entertainment. NetJets also created a blue ocean by offering fractional jet ownership to customers wishing to avoid the hassles of flying commercially. Entering a red or blue ocean will have a dramatic impact on your potential profitability (another screening factor).

Perhaps the most important criterion to use when evaluating opportunities is finding out what the customers think and whether they will buy from you. This requires you to "talk" with your potential customers and to get validation from them. If they hate your idea and are unprepared or unwilling to buy from you, then perhaps you have the wrong opportunity. This **voice of consumer (VOC)** feedback is, in my view, the most important aspect of the evaluation process. VOC is a research technique that is designed to uncover customer wants and needs; assess customer satisfaction with existing product/service solutions; obtain feedback on new venture concepts and the products/services offered by the ventures including likelihood of purchase; and other key input regarding the nature, scope and configuration of proposed venture and/or its new products/services. VOC can be both qualitative and quantitative in nature. But, either way it involves interacting with customers in the real world (in the field) in an in-depth manner. The goal is to extract valuable customer-centric information that leads to validation of your proposed venture and its products/service, or allow for refinement of such, or killing the proposed venture. There are many VOC methods and they will be discussed in Chapter 3, including but not limited to depth interviews, focus groups, and ethnography. The value of VOC information should be judged based on its credibility, reliability, validity, and its predictability. Granted, as we discussed in Chapter 1, the voice of consumer may not work well for discontinuous, new-to-world innovations, but it will work for almost all other proposed ventures. We will discuss voice of consumer in more detail a little later in the chapter as it pertains to assessing consumers' likelihood of purchase vis-à-vis your new venture.

The last two criteria (personal fit and ability to obtain financing) are not strictly marketing related, but we include them here because they are important considerations when evaluating opportunities. Also, other important non-marketing-related evaluation criteria that you should use to assess given opportunities include, for example, the quality of the management team you could put together. Finally, it is important to remember that a given opportunity is not an opportunity for everyone; it is just an opportunity for "someone," and it might not be you. Industry experience, market knowledge, or personal fit may make an identified opportunity appropriate for one entrepreneur but not for another.

Determining the Extent of the Opportunity: Making Some Market Estimates Using Voice of Consumer Feedback

Many entrepreneurs have difficulty quantifying the extent of the opportunity under consideration. But knowing the market potential for the venture is critical before one makes an investment in the business. Typically, an entrepreneur discovers the aggregate size of a given market and then makes a revenue projection based on capturing a particular percentage of market share. For example, assume the market size for product category X is $1,000,000. Some entrepreneur will forecast capturing a particular percentage of market share, say, 20 percent. In this case, the market estimate for the enterprise would be $200,000.

Furthermore, the entrepreneur may also use three different levels of market share (e.g., 10, 15, and 20 percent) to represent pessimistic, realistic, and optimistic projections. But, when pressed, most entrepreneurs cannot validate why they are using such percentages, and few have confidence in the predictive value of their estimates.

One simple way to overcome this problem is to go to the market and talk with potential customers and get their input—voice of consumer or VOC. What you would do is develop a short venture concept statement describing what the business is, the value you provide, and the price the customer will pay. You then ask the customer, given the presented-venture concept statement, "How likely is it that you would buy from my business?" Typically, a Likert scale is used ranging from 1 to 5 with 1 being *very unlikely,* 2 being *unlikely,* 3 being *neither unlikely nor likely,* 4 being *likely,* and 5 being *very likely.* What you do then is determine the percentage of customers who answer "likely or very likely," and this gives you what is called the "voice of consumer 2-box score."

Here is an example of how it works. When I was planning on opening a gourmet food store, I knew the average expenditure on gourmet food by families in my trade area at that time was $1,000 per family per year.

I presented my venture concept to 100 potential customers and asked how likely it was that they would shop at my gourmet food store. Twenty percent said that were likely or very likely to do so. I also knew the trade area for my store had 10,000 families. So, my market estimate for my gourmet food store was as follows:

> 10,000 families (in trade area) × 20% (voice of consumer 2-box score) × $1,000 (annual expenditure) = $2,000,000

Of course, I made the assumption that I would obtain the entire $1,000 annual expenditure by those 20 percent of families who said they were likely/very likely to buy from me. But I was pretty comfortable with this assumption since there was no other gourmet food store in my trade area, and people had to travel more than 30 minutes to the nearest competitor. How accurate was the forecast? I did more than $1.8 million in the first year and exceeded $2 million in Year 2.

Now, of course, using voice of consumer input to make projections is not an exact science. Moreover, the measure (likelihood of purchase) is an only a "surrogate" indicator (it measures purchase intent only) and does not measure real purchase behavior. But I would argue it is a better way of quantifying the extent of your marketing opportunity compared to making market share guesstimates based on personal judgment. In essence, you are allowing the consumer to provide validation of the opportunity. And this validation is very important, especially when you seek financing for your business.

Also, if you are going to use "voice of the consumer" to validate the opportunity, you also have a unique chance of asking the consumer to help further shape and refine your business venture. In other words, you can present your concept to potential customers and then ask what else they might like the business to do for them. You will be surprised at how willing customers are to offer additional input and input that may lead to a better business for you.

Opportunities and the Business Model

Once you have identified and well screened your opportunity, the next step is to determine how you will make money from this opportunity. This is where your **business model decision** comes in. In short, a business model is a framework for making money. It outlines the set of activities that the enterprise will perform, how it will perform them, and when it will perform them to create customer value and earn a profit. I have argued for many years that a good opportunity also requires a good business model. And, importantly, a bad business model can, in fact, negate your ability to make money from a good opportunity.

However, even though the enterprise's business model is central to the firm's success, there really is little consensus in terms of exactly defining the term *business model.* Still, most experts do agree that the business model should answer the following questions:[13]

1. How will the enterprise make money?
2. How will the enterprise create value?
3. For whom will the enterprise create value?
4. What is the enterprise's internal source of sustainable competitive advantage?
5. How will the enterprise position itself in the marketplace?

Successful entrepreneurs also ask themselves the following questions with regard to the business model:[14]

1. Where is the money?
2. Who has the money?

3. How do I get the money?
4. What do I need to provide to get the money?
5. How do I get it faster than anyone else?
6. How do I get it time and time again from the same customer?
7. How can I add other revenue streams later?

It is critical for you to target the right customers with the right value. Thus, your "value proposition" is a central aspect of your business model. With your value proposition, you recognize the customer's problem, create the product/service that addresses the problem, and communicate its value to the customer.

You must focus your efforts and determine which customers you wish to serve (target market/segment) and how much of each customer's needs you want to serve. What is also very important for you to consider is not only creating recurring revenue but also obtaining incremental revenue. In fact, many customers can produce more than one source of revenue (e.g., buying a car and having it serviced). Moreover, some customers might wish to buy a product, but others might wish to lease, rent, or rent-to-own a product. An enterprise that only wishes to "sell" its product may be losing out on other potential lucrative revenue streams!

Finally, another important aspect of the business model is determining your position in the value chain (e.g., do you want to be a manufacturer, wholesaler, or retailer?). Importantly, for some of you, your enterprise may lend itself to "licensing" and not manufacturing, distributing, and marketing. In fact, one of my companies simply created innovations and then sold the rights to those innovations because I did not want to be in the manufacturing business. Thus, do not forget that licensing can be a very good way to make money without the headaches of running a more complex business.

Now, let me give you an example of how a good business model saved a business that discovered a good opportunity and produced a very superior product to capitalize on that opportunity. This little enterprise developed a self-sharpening de-heading machine used in commercial fish processing plants. Up until that point, all current de-heading machines had to be taken off-line so their blades could be sharpened.

Every time this occurred, the processing lines would be idle and the plants would lose money. This new machine allowed the lines to continue to work because the machine had a built-in sharpening mechanism. The fish processors loved the product. The problem was there was no product obsolescence built into the machine. It simply did not break down, and once the machines were sold to the processors, there would be no recurrent revenue.

The solution? The company sold an annual service maintenance package with each unit. This provided peace of mind to the processors, but because the machines were so durable and reliable, rarely did the company have to go out and service the units. Thus, while the initial business model was based on building and selling a better piece of equipment, the sustainable business model was actually selling the service maintenance packages! This example clearly illustrates the relationship between a good opportunity and a good business model.

In summary, it is critical that you develop a robust business model for your venture. In fact, without one you are not very likely to attract venture financing since investors really scrutinize ventures to ensure that the business model is strong enough to sustain the venture. And, just like you would vet your opportunity with your potential customers you also want feedback from those potential customers about your proposed business model. Does the model make sense to them? Is this how they want to do business with you? This input will help you determine how to best configure your venture to create value for your target market as well as select the best strategy for making money and sustaining the growth of your enterprise.

Key Takeaways

- Remember that opportunities can be recognized, discovered, or created.
- Always evaluate your opportunities against the known characteristics that define a “good opportunity,” including whether it creates significant value for the customer.
- Be certain to look for opportunities that result from “change” in the marketing environment.
- Always properly screen your identified opportunities using objective criteria such as customer-felt need and voice of consumer feedback.
- Always make some market estimates to determine the extent of your opportunity.
- Remember that a good opportunity also requires a good business model—how you will make your money, how you will configure your venture, and what strategy you will use to guide the venture to sustained growth.

Entrepreneurial Exercise

Come up with three possible marketing opportunities. Now, using Figure 2.1, go through the process of evaluating those opportunities. What are the results? Which opportunity, if any, appears to have some potential? If none survive the process, what were the major showstoppers?

Key Terms

Notes

1. Frederick G. Crane and Jeffrey E. Sohl, "Imperatives for Venture Success: Entrepreneurs Speak," *International Journal of Entrepreneurship and Innovation* 5, no. 2 (2004): 99–106.
2. Ibid.
3. Saras Saravathy, N. Dew, R. Velamuri, and S. Venkataraman, *Handbook of Entrepreneurial Research* (London: Kluwer, 2003). Also see J. Schumpeter, *Theory of Economic Development: An Inquiry Into Profits, Capital, Credit, Interest and the Business Cycle* (Cambridge, MA: Harvard University Press, 1934); I. M. Kirzner, *Perception, Opportunity and Profit* (Chicago, IL: University of Chicago Press, 1979).
4. J. Timmons and S. Spinella, *New Venture Creation,* 7th ed. (Burr Ridge, IL: McGraw-Hill, 2008); A. Osborne, *Entrepreneur's Toolkit* (Boston, MA: Harvard Business School Press, 2005).
5. Timmons and Spinelli, *New Venture Creation.*
6. Crane and Sohl, "Imperatives for Venture Success."
7. This section is based on Frederick G. Crane, Roger Kerin, Steve Hartley, and William Rudelius, *Marketing,* 7th Canadian ed. (Toronto: McGraw-Hill Ryerson, 2008).

8. Scott A. Shane, *Finding Fertile Ground* (Upper Saddle River, NJ: Wharton School Publishing, 2005).

9. Karen Kerrigan and Raymond Keating, “Telecommunications Policy Choices and Entrepreneurs,” Small Business and Entrepreneurship Council’s 21st Century Small Business Policy Series, Oakton, VA, 2007.

10. Ernst & Young, “Transformation. Cleantech: Enabling the Business Response to Climate Change,” Global Cleantech Insights and Trends Report, 2008.

11. This section was contributed to by Erinn C. Crane, IP Attorney, Boston, MA, February 2012.

12. W. Chan Kim and Renee Mauborgne, *Blue Ocean Strategy* (Boston, MA: Harvard Business School Press, 2005).

13. Marc H. Meyer, *FastPath to Corporate Growth* (New York: Oxford University Press, 2007).

14. Ibid.