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Finding and Evaluating the Right Marketing Opportunity

Learning Objectives

- 2.1 Explain how marketing opportunities can be recognized, discovered, or created.
- 2.2 Explain the characteristics of a good opportunity.
- 2.3 Recall where to look for opportunities.
- 2.4 Describe the importance of veiled and niche opportunities.
- 2.5 Evaluate marketing opportunities using a template found in this chapter.
- 2.6 Explain how to prepare market estimates using voice-of-consumer feedback.
- 2.7 Describe the relationship between opportunities and business models.

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 that 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

LO 2.1 Explain how marketing 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). When the COVID-19 pandemic hit us, you didn’t have to be a genius to recognize that there was going to be demand for facemasks given government mandates to protect the population! So many entrepreneurs jumped on that opportunity to supply masks.

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. Again, with the COVID-19 pandemic, pharmaceutical firms rushed to be the first to supply vaccines given that there was and is plenty of pent-up demand for such.

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., new social media platforms). Thus, it is entirely possible that an opportunity is something that is “out there,” waiting for the entrepreneur to recognize or discover it. 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

LO 2.2 Explain the characteristics of a good opportunity.

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

1. It creates significant value for customers by solving a significant problem or filling a significant unmet need for which 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 mentioned here, 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

LO 2.3 Recall where to look for opportunities.

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 ranging from luxury handbags and cars to 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 marketplace. 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 the 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 and the Internet of Things (IoT), 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 are commercial-free satellite radio and streaming services that compete with broadcast and cable television. 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 (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 shift in the competitive landscape has been toward inter-type 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 promarket 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

LO 2.4 Describe the importance of veiled and 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 or involves a very specialized type of customer. HayChix—a women-founded enterprise, for example, focused its business on horse owners—about 10 million domestic horses are owned in America. They discovered horse owners were concerned about their horses wasting hay. So HayChix created a slow-feeding hay bag that ensures proper feeding with little waste.

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

LO 2.5 Evaluate marketing opportunities using a template found in this chapter.

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

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

also be a showstopper 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.

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 simply might not 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 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 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 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), and it must show an inventive step that 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** that identifies certain goods or services as those produced or provided by a specific person or enterprise. The origin 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, and 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 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 predictability. Granted, as we discussed in Chapter 1, the voice of the 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

LO 2.6 Explain how to prepare 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. We call this approach a top-down method and label it complete “financial voodoo.”

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. This is referred to as a bottoms-up approach and provides a more realistic picture for potential revenue. What you would do is develop a **customer value proposition statement** or CVP—a short venture concept statement describing what the business is, the target customers it seeks, the value you provide, and how you are different from competitors. My research shows one of the primary reasons new ventures fail is the lack of a CVP or a poorly conceived one. A CVP must articulate the distinctiveness and unique value you are offering to your prospective customers. Importantly, it points out that what you offer is simply better than your competitors.

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 they 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:

$$10,000 \text{ families (in trade area)} \times 20\% \text{ (voice of consumer 2-box score)} \times \\ \$1,000 \text{ (annual expenditure)} = \$2,000,000$$

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 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 VOC 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 Business Models

LO 2.7 Describe the relationship between opportunities and business models.

Once you have identified and screened your opportunity well, 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?

A major component of your business model is your revenue model. There are several revenue model options for you to consider including: production model (manufacturing), subscription, licensing/royalty, and franchising. Each has its own strengths and weaknesses, and you should examine which one makes sense to you given your specific opportunity and business context. Choice of consumer is very valuable in determining which revenue model is right for your given the customer you are seeking and how they wish to do business with you.

It is critical for you to target the right customers with the right value. Thus, your customer value proposition" (CVP) plays an important role in helping

you do so. It also plays a central role in determining the exact nature and confirmation of your business model.

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 deheading machine used in commercial fish processing plants. Up until that point, all current deheading 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.
- Be sure to prepare a customer value proposition (CVP) to validate your opportunity, revenue, and business model.
- 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

Branding 31	Process 32
Brand name 31	Protection 32
Veiled opportunity 28	Owner 32
Brand 32	Voice of consumer 33
Niche opportunity 29	Trademark 32
Intellectual property (IP) 31	Business model 35
Red ocean/blue ocean 33	Opportunity 21
Patent 32	Customer value proposition (CVP) 34
Invention 32	
Product 32	

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