

# PART 1

## Defining the Focus of Your Venture

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## Defining and Testing Your Venture (Before Writing the Business Plan!)

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The process for creating a new venture is just that—creation. It involves ideation, refinement, testing, and more refinement. Unlike producing a work of art, however, creating a new business requires that you ideate not only what you will do as a business, but how you will make money doing what you do—for example, manufacturing and selling products, or producing and selling services.

Within the creation of a new business, there is a balance between discovery of new technologies and the application of proven technologies to solve people's problems. It is easy to get confused by the difference between "invention" and "innovation." As an entrepreneur, you must understand these differences because your path toward success will likely be very different if you are focused on one or the other.

Invention is the discovery of new science and technology. For example, one of our former students led the team who developed a new flexible solar film that can be layered on top of radios, backpacks, vehicles, and so forth. A technology-intensive university spin-off—which is a company originating from a university research lab—typically takes years to realize its first dollar of real product revenue because there is so much research and development to do to get useful commercial products ready for market. Despite the great promise of his flexible solar film technology, this student knew he was in for a long haul. Not only did the "product" have to be perfected for specific applications, but the company had to design and develop an entirely new, capital-intensive manufacturing process for producing the flexible solar film. And a long haul it was! (This company raised over \$100 million over a decade to commercialize this "power plastic" film—developing tremendous intellectual property along the way. It was also a challenged business, however, because while its applications were myriad in number, each was small in terms of generated revenue.) "Invention" takes years. The front end of invention is typically best left to a well-funded university or to corporate research labs.

In most cases, however, neither the startup nor the corporate entrepreneur have the time to wait for what often turns out to be a decade or more to see if a disruptive technology actually works and can be scaled into commercial form. For the entrepreneur involved in an invention business that takes many years to fulfill, hopefully there's enough money left over at the end of the discovery process to get on with the business of actually making money with the technology.

Biotechnology startups are the classic "invention" venture. Most need to raise \$10 million just to get started and another \$50 million to get to animal trials—even before testing a single drug on humans! Not many people can raise that sort of money. Nonetheless, the rewards can be immense, with hundreds of millions, and sometimes billions, of dollars garnered by successful therapies.

Innovation, on the other hand, is the application of science and technology to solve problems for consumers, companies, governments, or society at large. Entrepreneurs, in particular, tend to apply their innovative thinking to find and address *new market applications* (e.g., new sets of emerging problems, new challenges, and new opportunities). For example, we see myriad mobile software development startups creating new applications—for mobile advertising, mobile health monitoring, or smartphone-based financial transactions—based on existing communications standards or protocols and published software development toolkits from Apple, Google (Android), or some other major company. Or it might be the application of known nutritional science to create a new product line of healthy, great-tasting snacks for people—or their pets! Or it might be applying known materials to create new energy-efficient or sustainable household goods.

Regardless, using an existing set of hardware and software tools, chemicals, or any type of elemental ingredients does more than just reduce an important element of risk for the entrepreneur: An innovation focus is a market-driven focus. The drive becomes to understand what customers need and to design products or services to satisfy that need. It also allows the

entrepreneur to focus heavily on the go-to-market aspects of being a successful business—the branding, the distribution or selling, and the additional follow-on services that the business can provide to customers.

This holds equally true for corporate entrepreneurs reading this book. You want to be in the position of taking and deploying existing—or, if it's new, well-proven—technology out of your company's research labs to new market applications to create new streams of revenue for your corporation within a year, or perhaps two, and at the very most, three. Try to select technologies that are ready to hit the ground running.

Trust us: It is best *not* to rush blindly into the startup process. Better to do it step by step, answering one set of questions first, and then tackling the next, integrating the whole into a powerful plan. This will help make your entrepreneurial learning process much more efficient.

Successful entrepreneurs and investors want to know answers to a series of questions for any venture:

1. *What is your target industry, and more specifically, what is the segment or niche of that industry that you wish to target?* Entrepreneurs focus on specific parts of an industry for startup through a process generally called *market segmentation*. A segment is generally viewed as a large part of an even larger industry; a niche is a smaller part within a specific industry segment (for example, the electric car niche within the passenger auto segment of the automobile/transportation industry). Entrepreneurs generally first succeed by targeting their work in a specific niche. After becoming a market leader in that niche, they expand to adjacent niches, or for the most ambitious, perhaps entirely new industry segments. But to enjoy success, that initial industry target needs to show customer demand and growth. Is there the demand and future growth in your industry target—the sheer market power—to reward you for all your hard work? Is your target segment/niche a good place to start a new venture over the coming decade, a good place for you and your investors to make money? The process of selecting that industry target—creating a laser focus on a particular part of an industry—is the first important step in defining a venture focus. The best way to show a strong industry target is to gather *data*—as much as you need to prove to yourself that it is an excellent area in which to start a company. That data come from government sources, industry trade associations, trade shows, or articles in publications. Much of this information is also available with diligent searches on the Web.
2. *Who, specifically, is the target customer in your selected industry, and what market potential does that target customer represent?* Within an industry segment/niche, there is often more than one type of customer. For example, in healthcare, there are children, teenagers, college students, young professionals, Baby Boomers, and seniors—all with different healthcare needs and different preferences for services. A younger person with chronic medical problems will be more receptive to the use of computers and sensors for home healthcare monitoring than elderly customers typically will, particularly those with cognitive disabilities. You, as the entrepreneur, must be very specific about which type of customer you wish to serve first with the solutions you have in mind. In other types of businesses, this choice might be in which city to start a services company, and then over time, to expand to other cities. Moreover, the entrepreneur needs to be crystal-clear about whether there is a difference between who buys and who uses the product or service. Answering this set of questions typically involves field research, visiting different types of customers in their places of work, leisure, or care, and seeing which ones need new solutions most.
3. *With a target customer within a target industry segment/niche in hand, what are the needs, fears, frustrations, and buying preferences of the target customer? And how do these needs translate into the design of a distinct new product or service?* The key to

success here is to understand how customers themselves define their problems. This takes careful listening and meaningful conversation. We think of this as “getting into the hearts and minds of users.” Then, as innovators, you and your team can then best determine how to satisfy these needs. Is your target customer the building owner who needs energy management systems to automatically power equipment on and off to save money, or the municipality that requires flexible mounting systems to place and control solar panels throughout city property and buildings? Is it the small-business owner who is lost and confused about how to publish information on a Website, track his or her own customers in some sort of CRM (customer relationship management) system, and anticipate what he or she might need next? All are examples of understanding the compelling needs or different types of target customers in a clear, simple way. *That is what you want for your venture.* Once again, field research with customers in their place of use (which means in their homes or offices, not yours) is the best way to gain these insights.

4. *Using your basic product or service idea as a foundation, how can you develop a powerful product line or services strategy that offers a range of choices for different specific types of buyers in your target customer group?* No enterprise makes a lot of money on a “onesie”—that is, a single product or even a single service. Rather, ventures require a fully featured product line or a range of services—based on a common core—that can be tailored to specific customers within your target customer group. This requires you to create a product line or services strategy that provides variety and choice. Moreover, your products and services must have an elegant design—simple, powerful, and visually or emotionally appealing for the user. This is just as true for a business service, a newly designed piece of medical equipment, or an industrial machine as it is for a consumer product sitting on a retail shelf. *Design matters.* The best way to develop a winning design is through trial and error. This means designing your product or service on paper or computer, figuring out the best and least expensive way to prototype it, showing the result to target customers, getting their feedback, and then improving it through perhaps two or three successive iterations. These days, getting money from professional investors requires the entrepreneur to show not only a great business plan but a customer-vetted prototype as well.
5. *With a target customer and a product or service concept in hand, how is the business going to make money?* This is defining the *business model* for a venture. Business models for a venture can be just as much a point of competitive advantage as any specific products or services. Investors want to see a business model that is both pragmatic and exciting. The definition of a business model requires that you think about the structure and type of revenue from selling your products or services, as well as how you will do R&D, manufacturing or fulfillment, and distribution/selling. Also, the process of defining a business model bounces back to impact the design of a product or service, or even the choice of a target customer. For example, you might find that your initial target customer doesn’t want to spend a lot of money on new products or services, but another group does. Or you learn that it is a good opportunity to sell follow-on services in addition to a product—and adjust your product line/services strategy accordingly. Regardless, defining a business model is the foundation for projections of revenue, expenses, operating profit, and capital investment needed for business planning later on.
6. *How will the venture differentiate from other companies already serving your target customers?* You might think you don’t have competitors, but 999 times out of 1,000, you do, even for the most unique venture idea. And sometimes the customer you seek could be your competitor. In short, they could make a decision to make/do it themselves. The key is to truly differentiate yourself—make yourself distinctive enough to create a separation between you and your competitors. From this, you can then define a branding strategy, for example, how the venture communicates the

special nature of its products or services, and hopefully, premium value. Just look at Apple. It is both the master of elegant design for its computers, phones, and services, and the premium positioning of these offerings. Its branding communicates performance, fun and ease of use, and social consciousness. Most young entrepreneurs are so optimistic about their commercial offerings and business models that they fail to adequately consider current competition and competitive responses. Indeed, a lack of competitive due diligence leaves you subject to nasty surprises right after launch. And well before that, potential investors will dig into your competitive analysis. It is amazing just how much information can be surmised about competitors by examining their own Websites. You also need to learn how to define both your competitive positioning and brand communications from three important perspectives shown so well by Apple: *functional branding* (objective price/performance), *emotional branding* (the personal bond and attachment the consumer has with the brand), and *social branding* (the demonstration of social principles and behavior toward society and the environment).

7. *How will we know that the venture idea—its proposed commercial offerings, its business model, its competitive positioning and branding—all make sense for the target customer?* These elements of the venture idea all need to be vetted with prospective customers in the context of current and emerging competitors. We call this *conducting a reality check* on your venture idea. This reality check must be performed as a field-based exercise with target end-users and buyers. Any seasoned investor is going to ask after hearing your pitch, “Those new products and services sound great, but how do we know that any of this is really going to fly with target customers?” or, “Your business model sounds unique and potentially a source of sustained competitive advantage, but has anyone else ever succeeded in making money this way? Is it really feasible?” Being able to anticipate these questions and answer them with some degree of certainty—which means having data—is where you need to be to launch your venture.

We will help you explore these questions and develop answers in the next seven chapters of this book. Each of the basic questions above has its own chapter. We want you to read these chapters and apply the exercises to your own projects before writing the formal business plan. In other words, we want you to perform all the in-market learning and thinking first before writing a single page of the business plan. There are no shortcuts. Sure, you might get lucky and write a quick plan, raise a little money, and launch some products or services in a month or two. However, unless you are extraordinarily brilliant or have tried a similar type of business before and failed but are going at it again with the benefit of your prior mistakes, the chances are that you will have to scrap most of what was in your short-and-quick business plan and reinvent your business on the fly.

In contrast, going through the first section of this book successfully will make the second part—writing the actual plan—relatively straightforward. It will also greatly increase the chances of success in terms of raising money and executing with that money. You will bring all the research, insight, and integration of ideas from Part I into your business-plan writing and money-raising efforts. In short, the time spent in the first section will pay handsome dividends later on.

Now, *we hope you are ready not only to work but also to have fun in doing that work*. Think of this as not just working for a grade but working for yourself, for your own future. Creating something from scratch—seeing a business launch and grow from simply an idea in your head—is one of the most rewarding, exciting, and energizing things that anyone can do in their lives. It doesn’t always work, but when a venture succeeds, *there is nothing else quite like it* for the mind and spirit.



# 1

## Defining Your Industry Focus and the Type of Business You Want to Start

### The Purpose of the Chapter

The biggest mistake a would-be entrepreneur can make is to follow blindly his or her passion about a particular invention or technology without regard or knowledge about the industry and applications to which that invention or technology will be applied. To be successful as an entrepreneur, you must select that part of an industry—that industry segment, and most often, initially a specific niche within that segment for startup—that can reward your hard work with customers who need what you have to sell and will pay you for it. Select a strong industry target—one that is growing and hungry for innovation, new products, and services—and with proper execution, your innovative idea can be the basis of a wonderful company.

This is a market-driven approach to entrepreneurship as opposed to one where you simply create technology and pray that it finds a good market and application to serve over time. A lot of technical entrepreneurs, for example, try this approach—and very few of these succeed in building great companies. You need a clear industry focus that drives you all the way to specific solutions for specific types of customers. Successful entrepreneurship rarely happens by accident. Sure, timing is extremely important, but being in the position to take advantage of fortuitous circumstances is what entrepreneurship is all about. Though “hunches” or intuition may open your eyes to real commercial possibilities, they may also lead you into a trap, where even a great idea is pulled down the drain by the overwhelming forces of a declining industry.

Also, if you are going to raise money from professional investors—angels, VCs, or larger corporations—you *are going to have to prepare a bold defense for the attractiveness of your target industry segment/niche* with data—facts that prove size and growth.

This chapter describes provides methods for you to:



1. Assess whether your own personal characteristics are well suited for venturing
2. Define a target industry, understand its essential business dynamics, and select the market niche in that industry where opportunity beckons most
3. See if there is a match between your experience, education, family connections, and personal passion with that market niche
4. Determine the type of business (product, system, or service; a standard money-making company or a *social venture*) with the greatest potential for success

Your own background and personality are critically important factors in determining the venture you wish to start. This chapter discusses the dynamic between your own personal experiences and interests, and the market realities needed to support a prosperous business. Entrepreneurs have passion for their new Venture Concepts. However, just because you are wildly enthusiastic about a particular hobby, business, or technology does not mean that starting a company based just on that personal interest will be worth the effort. This chapter will help you think about these two sides of the entrepreneurial coin and, we hope, strike a balance.

Successful entrepreneurship requires you to be brutally honest and pragmatic about the facts on the ground. You must do your utmost to gather the best information available around any particular decision, and then take the information you gather seriously. You cannot pretend that a “weak” industry will suddenly turn around and become a fertile ground for a new venture. If you come up empty, you must check other segments of that industry—and perhaps new, emerging niches within those industry segments—for better hunting. If nothing else, entrepreneurship requires persistence and an ever-positive attitude. You can do it!

### Learning Objectives

After reading this chapter, you should be able to:

- Assess your ability to “take it on the chin” and come up swinging! This is what we call “dispositional optimism”—an essential trait for entrepreneurs.
- Take stock of your personal background as a foundation for selecting an industry target.
- Gather information on the attractiveness of a particular industry and the segments and niches within that industry.
- Gather information on the startup, investment, mergers and acquisitions, and new product and technology action within an industry.
- Use industry analysis to define *the industry focus* for your venture.

## Are You Suited for Entrepreneurship? \_\_\_\_\_

There are some fundamental personal characteristics that separate successful entrepreneurs from unsuccessful ones. Do you have what it takes to succeed in the rough and tumble world of entrepreneurship? Just as important: Do your teammates have the “right stuff” for venturing?

There is no single type of entrepreneur. Some are highly educated; others don’t finish college. Some are technology oriented; others, not in the slightest. Some are men, and increasingly, many are women. While many of you are reading this book in an American or European country, by your e-mails we know that many others are sitting in places such as Bangalore, São Paulo, Shanghai, Istanbul, or elsewhere. And while many entrepreneurs start companies while still in or just out of college, others do so much later on as a second or new career after



decades in a major corporation. Trying to define a single type of entrepreneur—by age, gender, country, ethnicity, or background—is a fool’s errand. Don’t ever let someone else tell you that you can’t or shouldn’t become an entrepreneur.

Research has shown that there are other certain personal characteristics associated with successful entrepreneurs. Entrepreneurs strive for independence and autonomy in their decision making. They have a burning desire to control their own destiny (even though successful entrepreneurs will tell you that the truth is that *customers* control the venture’s destiny, and for others, *investors* have a pretty important say as well). Perhaps most important, while entrepreneurs certainly enjoy the financial benefits of success, most of the entrepreneurs that we know do not start companies with the primary objective of making lots of money—at least, not at first. Successful entrepreneurs define success beyond strictly financial terms. Rather, the burning desire is to solve important problems in society, at work, or in leisure. There is also the thrill of creating something new, of building a team, of making one’s mark on industry and society. We know this because in addition to being professors, both your authors have started and grown successful companies. Sure, the money is nice, but it comes well after the fact for most startups, and the thrill of starting and growing a company—despite the hard work and inevitable setbacks—is beyond compare.<sup>1</sup>

But the most important questions to ask yourself at this point are: Do I have the commitment, motivation, skills, and talents to start and build a venture? And can I locate individuals to join my management team who have the skills and talents to help me succeed?

We suggest that you start your personal assessment by honestly comparing yourself to successful entrepreneurs. Perhaps the most important personal skill comes under that elusive heading called “leadership.” Even young entrepreneurs have a good sense if they have the makings of a strong team leader—which means building and motivating a team. You also have to be comfortable making decisions for and with the team in a world of imperfect information. Successful ventures invariably have a strong leader.

Beyond leadership characteristics, successful entrepreneurs possess the following personal characteristics:<sup>2</sup>

- *Have drive and energy.* Successful entrepreneurs have the ability to work long hours for extended periods of time and can still function at a high level.
- *Have self-confidence.* Successful entrepreneurs believe in themselves and their ability to achieve success.
- *Can set challenging and realistic objectives.* Successful entrepreneurs have the ability to set challenging and realistic objectives.
- *Have long-term involvement.* Successful entrepreneurs make a commitment to the business and fully dedicate themselves to the business for the long haul.
- *Use money as a scorecard.* Successful entrepreneurs use money as a scorecard or measure for how well the venture is doing as opposed to an end in itself.
- *Solve problems.* Successful entrepreneurs have an innate desire to solve problems and persist until they achieve positive outcomes.
- *Can tolerate uncertainty.* Entrepreneurs must feel comfortable making tough decisions without perfect information. This ability to thrive under conditions of high uncertainty differentiates the entrepreneur from, say, a scientist who needs to resolve ambiguity before proceeding forward.

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<sup>1</sup>Roberts, E. B. (1997). *Entrepreneurs in High Technology: Lessons from MIT and Beyond*. New York: Oxford University Press.

<sup>2</sup>This section is based on Dinger, A., Haslett, B., & Smollen, L. (1997). Characteristics of a successful entrepreneurial management team. In *Pratt’s Guide to Venture Capital Sources* (pp. 23–28, Venture Economics, NY.); and Crane, F., & Crane, E. Dispositional optimism and entrepreneurial success. *The Psychologist-Manager Journal* 10(1), 1–13.

- *Can quickly and readily learn from failure.* Successful entrepreneurs learn from failure and use those lessons to avoid future failures. They accept failure as part of the entrepreneurial journey, but they are not discouraged by it.
- *Use constructive criticism.* Successful entrepreneurs seek out constructive criticism from informed experts, and they act on it.
- *Take initiative.* Successful entrepreneurs take initiative when they see opportunities. They also seek out situations where personal initiative can pay off.
- *Make good use of resources.* Successful entrepreneurs readily identify and use appropriate expertise and assistance to achieve their objectives.
- *Compete against self-imposed standards.* Successful entrepreneurs establish their own benchmarks of performance and focus on competing with themselves to improve personal performance. They don't need someone else to set goals for them. Successful entrepreneurs drive themselves hard.

While this list may seem long, every point is worthwhile and important. You should rate yourself on each of these characteristics (strong, average, or weak). To give these ratings a dose of reality, compare yourself to other individuals you know who rate strongly on these characteristics. If you rate yourself average or weak on most of these characteristics, it's a warning sign that a career in a larger, more mature organization might be the best ticket for you—at least for the time being. We have found that business skills are simply not enough to succeed. The psychology of an entrepreneur is essential for success. Granted, no single entrepreneur possesses all these attributes, yet many are ones that you can begin to practice on a daily basis, such as setting clear and challenging objectives for yourself or using constructive criticism to the best-possible result.

Additionally, entrepreneurs want to work in small companies! Don't forget that when you encounter a seasoned professional who wants to join your venture but comes from a large corporate environment. He or she may want to be a VP in a venture capital-backed startup with a hunk of stock, but has that person ever scheduled his or her own appointments, made the pot of coffee for others first thing in the morning, cleaned up the conference area for visitors, worked on a steel desk purchased from Craigslist or a discount furniture store, slept in travel hotels, and more generally, understood that the company's money is his or her money? These are tough questions to ask—but they need asking!

We also want to emphasize that if you don't view yourself as a gambler—a wild risk-taker—that's okay. In fact, that's more than okay. Most successful entrepreneurs are calculated risk-takers who constantly think about how to manage and mitigate apparent risks with specific strategies across the entire spectrum of the business. For example, if you only have average abilities in organizing work and making optimum use of scarce resources, bringing on board a more experienced manager with proven operational skills might be just the ticket.

## Persistence and Perseverance: The Importance of Dispositional Optimism

As important, if not more important than anything else, is that entrepreneurs have an unshakably positive outlook on life and believe that good things will happen, in spite of the present challenges. In essence, they are “glass-half-full” individuals—*even when times get tough!*

This constant personality trait—to be able to take it on the chin and come up swinging—is essential for success in entrepreneurship. For those readers not familiar with this Western slang, it simply means that you need to be able to look adversity directly in the eye and maintain a naturally optimistic outlook on life and your ability to create change, make a difference, and build a company. This is called *dispositional optimism*. Anyone can try to become an entrepreneur. The real question, we suggest, is whether you are well suited for the journey. Entrepreneurship by its nature involves many difficulties, uncertainties, barriers, setbacks, and failures. And thus it takes a particular type of individual to start and continue the entrepreneurial journey.

So now, take a deep breath. We want you to take a simple test that is shown in Figure 1.1. It is called the LOT-R test. It will measure your own dispositional optimism. Dispositional

Be as honest as possible in completing this instrument. There are no right or wrong answers, per se. Please place the appropriate number, either 1, 2, 3, 4, or 5, on the line next to each statement listed below to indicate the extent to which you agree or disagree with the statement. Please score each of the following statements as honestly as possible. The scoring is: 1 = Strongly Disagree, 2 = Disagree, 3 = You are neutral about the statement, 4 = Agree, and 5 = Strongly Agree.

Remember to place the number 1, 2, 3, 4, or 5 on the line next to each statement.

1. In uncertain times, I would expect the best. \_\_\_\_\_
2. It's easy for me to relax. \_\_\_\_\_
3. If something can go wrong with me, it will. \_\_\_\_\_
4. I am always optimistic about my future. \_\_\_\_\_
5. I enjoy my friends a lot. \_\_\_\_\_
6. It's important for me to keep busy. \_\_\_\_\_
7. I hardly ever expect things to go my way. \_\_\_\_\_
8. I don't get upset too easily. \_\_\_\_\_
9. I rarely count on good things happening to me. \_\_\_\_\_
10. Overall, I expect more good things to happen to me than bad. \_\_\_\_\_

**Figure 1.1** The LOT-R Test: Assess Your Dispositional Optimism

optimism is defined as the global generalized tendency to believe that one will experience good versus bad outcomes in life. In other words, it is about one's positive expectation for the future.<sup>3</sup> When people are faced with difficulties, optimists continue their effort to achieve their goals whereas pessimists tend to give up. We are asking that you take this test because we have found it to be a defining characteristic of successful entrepreneurs and corporate innovators. It has been shown to be highly correlated with entrepreneurial intent—the desire to be entrepreneurial.

So now, *take this test and see how you score*. Take it right now. Think a moment or two about your answers. Then, in the Reader Exercises at the back of this chapter, we will tell you how to actually score your answers. Please don't read the scoring guide until after you have completed the questions because that might bias your answers! And if it turns out that your score is high, you have a valuable asset going for you. If your score is low, it does not mean you should give up on entrepreneurship, but you may have to practice changing your mindset and deal with adversity in a more optimistic, "I'm going to get through it" sort of way. Research has shown that you can learn to be more optimistic; it just takes time and even some self- or guided training to do so.<sup>4</sup>

<sup>3</sup>Scheier, M., Carver, C., & Bridges M. (1994). Distinguishing optimism from neuroticism (and trait anxiety, self-mastery, and self-esteem): A reevaluation of the life orientation test. *Journal of Personality and Social Psychology*, 67(6), 1063–1078; and Scheier, M., & Carver, C. (1992). Effects of optimism on psychological and physical well-being: Theoretical overview and empirical update. *Cognitive Therapy and Research*, (16), 201–228.

<sup>4</sup>Baron, R. (2000). Psychological perspectives on entrepreneurship: Cognitive and social factors in entrepreneurs' success. *Current Directions in Psychological Science*, 9(1), 15–18; Crane, F., and Crane, E. (2007). Dispositional optimism and entrepreneurial success. *The Psychologist-Manager Journal*, 10(1), 1–13; and Crane, F., & Meyer, M. (2006). The entrepreneurial climate in Canada: The entrepreneur's viewpoint. *Journal of Small Business & Entrepreneurship*, 19(3), 223–231.

## Taking Further Stock of Your Personal Factors \_\_\_\_\_

A venture should begin on a solid foundation of industry knowledge and customer insight. This leads directly to a set of basic questions: What business experience do you possess that might be relevant to a new venture? What are the facets of your educational background that might come into play, either technical, or internship in a sales channel, or perhaps classmates who might fill certain key roles? What connections do you have among your family and friends that might be brought to bear in a venture, say, for raising startup capital? And at a deeper level, what are your personal interests and passions for business? In your heart of hearts, where might you want to commit yourself for a 24/7 effort for the next five years?! These factors are all fundamental components of the “you” who will be the soul of the company you wish to start.

Most people who aim to start a business get their initial ideas, inspiration, and resources from one or more of the following personal sources:

- *Work experience.* We watched as salesperson Cheryl moved up the ranks successfully selling medical instruments for a market leader in eye surgery, including cosmetic surgeries. She was determined to start her own business. Fashionable, engaging, and market focused, Cheryl saw the combination of increasing skin cancer rates and the spending of disposable income on cosmetic products and minor procedures (such as dermal abrasion and Botox injections) as creating an opportunity to start a chain of skin health centers focused on upscale professional women in urban areas.
- *Educational background.* Matt, a business school student, took various entrepreneurship courses and believed that there must be a better way to design customized business models and create financial statements than using his professor’s spreadsheet templates or buying one of the popular off-the-shelf packaged software sold for creating business plans. He created a Web-based, software-as-a-service package for business modeling and financial planning for new entrepreneurship students—selling it to entrepreneurship professors. Matt convinced his old business school professors to be the first test users!
- *Family background and business experience.* Walter, an old friend from high school, saw his father create a company that provides de-icing services to major airlines at many airports across the United States and Europe. Walter worked in the business and became the CEO after his father retired. Walter developed great connections through the industry. One of his de-icing customers was Federal Express (having a large fleet of its own airplanes). Walter wanted to make his own mark on the industry. He envisioned raising additional capital to start a feeder airline to transport FedEx packages to small, local airports in the southeastern United States. And that is precisely what Walter has done—and that feeder airline is itself a major business.

We see a current fad among student entrepreneurs to propose one social networking idea after another, following in the footsteps of Twitter or Facebook. The vast majority of these fail to become viable businesses. While the idea is “cool,” there is no clear recipe for monetizing the innovation. This is all the more true if the Website is geared toward fellow students who are well trained not to pay for anything on the Web. This is not to say that the social networking trend is a passing fad or that you can’t make money creating a social networking service. But the service needs to be monetized. Relying only on advertising revenue probably isn’t going to do the trick.

For example, Tom, a former student, developed a plan to combine LinkedIn-type social networking with Hoover’s-style business information to put all sorts of information in the hands of high-priced salespersons calling on corporations, large or small. Tom’s plan was to charge a healthy monthly subscription fee for this sales productivity tool. He ended up selling his company for more than \$50 million on \$10 million in profitable revenue within just four years of startup, and with his brother, still owned a majority of the stock! Banner advertisements had absolutely nothing to do with Tom’s business model. If you want to see how he raised early capital for his venture, and videos of Tom and other entrepreneurs, check out the Generate case on this textbook’s Website.

So even “cool” new technologies and social networks must be approached with good business sense. At the end the day, you need to monetize your innovations.

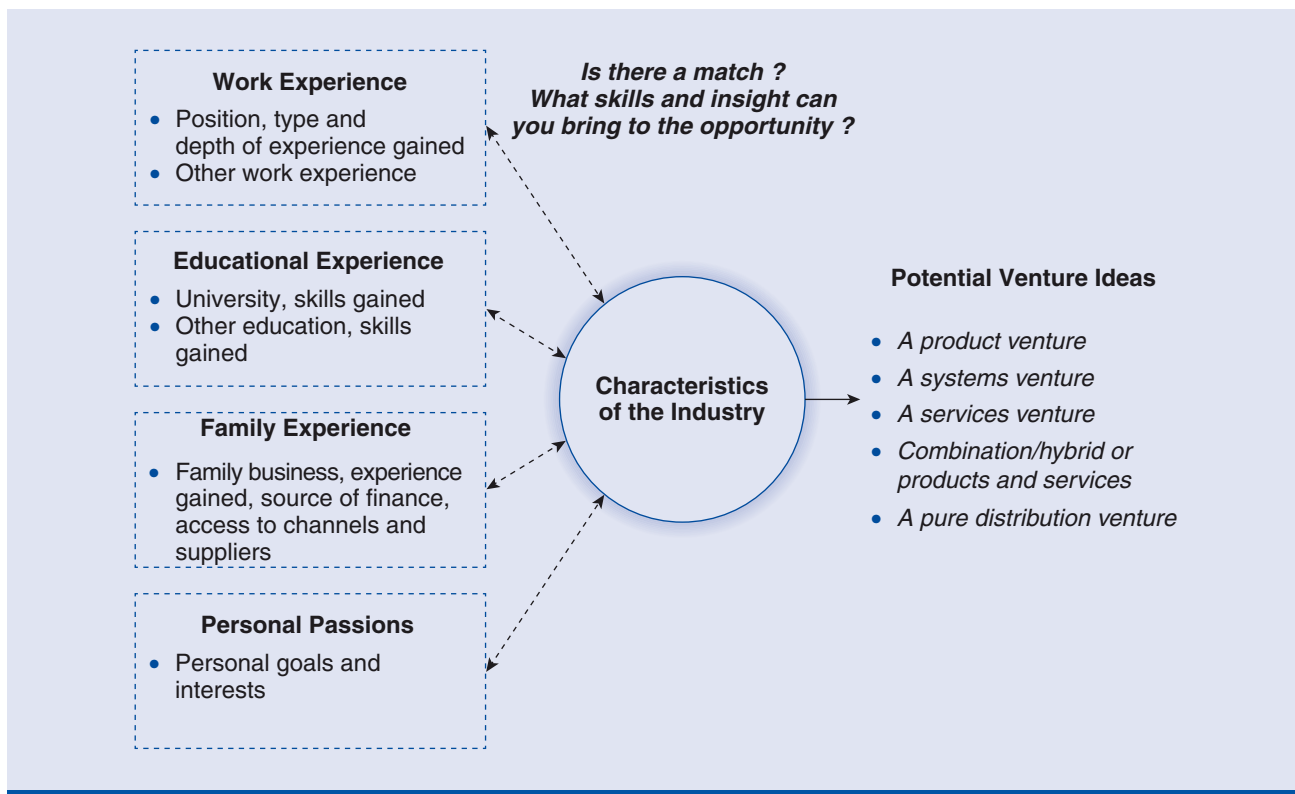
You also don’t necessarily need to work only in new, emerging industry niches. Many an entrepreneur has succeeded by bring new technology and new services into what most people consider “mature” industries. Most mature industries are in a continuous process of business transformation—and they need help. Just look at the energy utility industry, once the most “boring” but today one of the most exciting areas for energy-related entrepreneurship—some of it driven by new types of energy generation and a lot of the rest on information technology and analytics. As another example, we have a friend, Jim, who is building a great company that out-sourced employee assistance services for major corporations. One of his new industry niches is providing counseling services for none other than university professors, particularly those going up for tenure! He is creating a network of university employees and private counselors, with his company sitting squarely in the middle with a subscription-based service. Jim loves bringing innovation in the form of new services to mature industries. The same type of innovation can be found in healthcare, energy, and transportation. And the advantage is that cash is already flowing in these industries—money that could be yours for the taking.

None of these factors—work, education, family experience, or the current trend—function in isolation toward new venture creation. In fact, in many cases, these factors combine in a type of synergy that makes entrepreneurship its own special life form. Take the case of Alvin, who was born in China and immigrated with his parents to the United States at a young age. Over the years, he earned an undergraduate degree in electrical engineering, a master’s degree in computer science, and an MBA. He had a series of great corporate jobs in the United States, but his family heritage was a strong pull. He also saw the opportunity for building new businesses in China. After earning his MBA, Alvin took a job with Intel and then got himself an assignment in Shanghai to explore mobile consumer applications and services for the domestic Chinese market. A few years later, Alvin left to start his own mobile search company. Today, one of his major customers is China Mobile, which itself has over 300 million subscribers!

We share these stories for a purpose. Each individual took stock of his or her personal work experience, education, and family history—as well as his or her own passion for work and technology. (And, if you know them as we do, their desire to help society.) Each one of these individuals is very different from the other by way of work experience, educational background, family history, and personal passions. But the way in which they are the same is that they carefully listen to customers and integrate potential technologies and business models together. And each is a very “regular” sort of person in a social sense—individuals with whom you would enjoy having lunch or grabbing a beer: a good listener as well as a careful thinker. Perhaps most important, each is highly determined. They have been told “No!” a hundred times on their pathways to success—be it by potential investors, early customers, employees they wanted to hire, and in some cases family and friends who preferred a safer, more traditional career path. That dispositional optimism—being able to take it on the chin and come up swinging—is the characteristic that unites them together.

Figure 1.2 is designed to help you weigh how your own personal internal factors might direct you toward a particular industry as well as the target segment or niche within that industry. Take a look at it now and begin to think about filling in the boxes on the left side of that figure and how the combination of your own work experience, education, family background, and personal business goals point to an industry focus where your history and interests provide the insight and understanding needed for the road ahead.

However, it is critically important to note that following any of these internal factors blindly down the path to a Venture Concept might just as easily lead you into a lot of hard work with little return. Internal factors are seldom sufficient in and of themselves for success. To capitalize on the value they do contain, the entrepreneur must integrate them with favorable “external” factors such as rising market demand, positive industry trends, unsatisfied customer needs, and so forth. The best approach to do this is to find an industry (and a segment or specific niche within that industry) with those positive characteristics and then build an enterprise that capitalizes on them and the entrepreneur’s internal factors.



**Figure 1.2** Balancing Internal and External Factors to Shape New Ventures

The importance of finding the “right” industry cannot be overemphasized. Being in the right industry is like bicycling with the wind at your back, making your journey easier. The key is to identify a source of powerful market demand and let that demand drive the design of your venture as well as the team who you build around the venture. And that market demand is itself an unfolding story. In doing your research, you might go after a particular segment within an industry, and in that research, find a more specific niche within that industry area that is most promising. Or you might find that an entirely different segment is even better.

Find an industry target with favorable supply/demand and competitive characteristics, *and* where one’s internal strengths can be profitably applied. This is how we want you to approach your own venture.

The other important context-setting decision is whether you wish to start a new company from scratch or create a venture within an established corporation. Our examples and teaching cases in this book deliberately cover both types of situations, because each is a venture in its own right that can bring you satisfaction as well as considerable personal wealth. We have already provided you with lots of startup examples, so let’s take a quick look at a classic corporate venture.

Steve, a gifted electrical engineer and MBA student in one of our weekend classes for working professionals, was considering how to create a product line that would leverage his company’s technology to an *adjacent* market application. The company made highly specialized chips that were used to process 3-D images in medical equipment—CT (computed tomography) and MRI (magnetic resonance imaging) in particular. Steve searched and searched for other medical applications but came up with nothing. Working with the professor, both came to the same conclusion: Think outside the medical field.

Several weeks later, while returning from a business trip, Steve noted the poor quality of the luggage scanning system deployed at the airport. He realized that the government would demand far better solutions—if there were any. Steve now had a venture target. He



developed a plan for the course, which he took to the company's head of R&D. With the support of this executive, Steve received funding to lead a project to deliver improved scanning for airport security. September 11, 2001, had not yet happened, but it would soon rear its ugly head. Steve's project could not have been better timed. In the years since, his company has become a major supplier of imaging subsystems technology to manufacturers of explosive detections systems. For the entrepreneur, startup or corporate, having a market mandated by a federal government agency is perhaps as good as it gets.

Situations like Steve's are not usual. Ventures often emerge from the frustrations that people encounter. Thanks to their work experience and technical educations, midlevel corporate personnel like Steve often see problems or opportunities that their companies overlook, find too small to pursue, or might view as a new growth opportunity if only a well-considered plan is brought to management's attention. You can do the same by looking at the problems and frustrations you experience as potential opportunities.

## Spotlight on Entrepreneurship: Starting From Ground Zero

Some students lack the industry or work experience that would help them recognize and pursue an entrepreneurial opportunity. Are you at a point in life where you have no real work experience? And you don't come from an enterprise-owning family that discusses business around the dinner table every night? And the idea of working for someone else leaves you cold? *Don't despair.* You are starting at ground zero, but your passion and a bit of good, old-fashioned luck might open the door to something special.

We once had several students who, frankly, were not stellar academic minds. School, books, and classrooms were not their thing. However, they had other admirable qualities of mind and spirit, and in particular, that magic ingredient called dispositional optimism. As graduation drew near and their need to find employment became more tangible, they approached their professor.

"Professor, can you help us find a job at a bank or something?"

"I don't think you fellows are cut out for banking," the professor said.

"Then what about consulting? That pays well, doesn't it?"

"Yes, it pays well, but consulting firms normally hire graduates with close to 4.0s," the professor responded.

"Then, what should we do?"

"Well, you'll soon have degrees from a fine university, and you seem to have plenty of energy and guts. Maybe you should start your own company. That way, you can control your own destiny."

"Great," they said, "what should we do?"

"Do something you really love, because you're going to have to work harder than you have ever worked in your life—and definitely harder than you've worked in my class!"

One of the young men laughed, "Well, we sure love beer. Maybe we should open a bar!"

"Have you ever worked in a bar?" the professor cautioned. "Do you have any idea how hard it is to run a bar? You never have a night off, and the employee problems are rampant."

They looked puzzled.

*(Continued)*



(Continued)

“My guess is that you guys are going out to a bar tonight; am I right?” the professor asked. (Nods all around.) “Well, instead of being customers as usual, keep your eyes on the bar owner. Watch everything that person does. And think about what it would be like to be that bar owner six nights a week. *Really* think about it. Then come back and talk to me.”

The students were back the next day, this time with long faces. “Professor, we love beer, and we like hanging out in bars, but after watching that owner for hours, we would hate his job. But we think there is an opportunity to make really good beer.”

The professor lit up. “Now you’re talking. How about *making* a new line of specialty beers to sell to bars? I had some microbrewery beer the other day and it was great. Was very expensive, too. I bet there is room for another specialty beer label, as long as it’s premium quality and has a good story crafted behind the product. Think about it and come back to me next week,” the professor said.

Well, one of those students thought about it, a lot. After graduation he created a plan to enter the premium segment of the beer industry with a great Boston “story” behind the brand. This student had a passion for the craft and culture of brewing. He invested his time and money to learn about how the best beers are made and about the ingredients that go into them. Ten months after graduation, he and a new partner raised working capital from friends and family to start a specialty beer company. Within five years, the company passed \$10 million in revenue and won the “Best of Boston” award in specialty beers. After another five years of continued growth, the partners sold the company to a large, national specialty brewer. Our “academically challenged” student made fistfuls of money!

Yes, passion and energy can take you a long way, if you follow it up with the hard work needed to become an expert in the various aspects of your industry.

## Developing an Industry Focus: Investigating the Potential of an Industry \_\_\_\_\_

From this self-assessment, you should be forming an industry target for a venture in your mind. This is largely a “gut” call at this point. Where do your work experience, education, family experience, and personal interests point?

Now, from “the gut,” we must move to “the head”—to make a decision based on detailed research on the industries where you might venture forth.

### Industries, Segments, and Niches

An *industry* is a group of firms that produce products or services that are close substitutes for one another and that serve the same general set of customers. Industries are defined by the markets served by their competing participants.

Most industries can be subdivided into specific *segments* that include a set of competitors that address particular customer groups. For example, the financial services industry includes many segments: investment banking, commercial and retail banking, insurance, money management, and so forth.

Often, the segments of an industry also have subsegments, or *niches*, that include their own sets of customers, competitors, and commercial offerings. For example, in the insurance industry alone there are property and casualty, life, health, and long-term care niches.

Some segments/niches may have low growth, low profitability (over the past several years, for example, the property and casualty industry is suffering high claims due to natural catastrophes, storms, and the like), and little innovation; others, such as long-term care insurance

or home healthcare, may exhibit dynamic growth and an abundance of opportunities to make money. The central idea here is for you, the entrepreneur, to do your research to focus not only on a promising industry, but to find the segment, and the niche within that segment, that offers you the best chances of starting a company and growing it to be a leader in that niche. Often, a niche that is emerging and seems small has a way of growing rapidly and becoming a major market in its own right.

Competition is very important as well. As an entrepreneur, you should not try to take on an entire industry and all of its established players, at least not in the beginning. Define your target market in a way that your venture is a rifle shot toward a specific opportunity, with just a handful of competitors—as opposed to a shotgun approach blasted at an entire market. This approach leads you to find a particular niche within the larger industry, to grow into the leading if not dominant player in that niche, and to expand from there. This lends focus to the new enterprise, and focus is all-important for everything else you will do: what to make, how to produce, how to sell and promote, and whom to hire.

It is all the better if your industry focus leads you to a segment/niche that exhibits a healthy rate of growth in terms of current or expected sales. We call this strong customer demand. It also good if there is a clear distribution channel to reach those customers, be it the Web, a major retailer, or an industrial partner. Otherwise, building an entirely new channel to market typically requires millions of dollars, if not tens of millions of dollars, every dime of which will come out of your own founders' stock.

## Organizing Your Industry Learning ---

Therefore, you need to understand an industry both in broad strokes as well as what is happening in its various major segments and particularly interesting niches within those segments. At the end of the day, you are going to select one of those niches to start your venture—one that matches up your work experience, education, personal connections, and professional passions.

As you study a particular industry, its segments, and niches, look for positive indicators in the following areas:

- The current size and growth rates of customer demand, for example, sales
- Major trends sweeping across the industry
- The competition in the industry and evidence of successful business models
- The activity level of new companies, venture deals, and M&A transactions
- The technology life cycle stage of the industry overall, often reflected by new technologies, products, and services recently announced by players in the industry
- The channels of distribution within an industry
- Attractively priced suppliers for key components, technologies, or ingredients that you need for your products or services
- No existing barriers to entry that might make your life extremely difficult as an entrepreneur

The first step is to type in key words with descriptors for each of the eight bullet points above in your favorite search engine, including a label for your industry target, such “sales home healthcare,” or “venture capital home healthcare,” or “new trends technology home healthcare.” Sit back and watch a wealth of information unfold before your eyes. Start browsing through the links. When an interesting company is mentioned, go to its Website, look at the management team, the Board (who will be investors if it is a startup), the products, and the customers. If it is publicly traded, take a look at the financial statements to see who is making money in the industry, and *how they are making it*. Also, look for industry reports from trade associations, articles that size a particular industry or emerging segment or niche, or a new product announcement

by a company, large or small. You are looking for facts, figures, potential customers, channel partners, and competitors.

Create a set of folders on your computer desktop and store this information for later use. Most important, organize this information into overall industry information and more specific segment or niche information. You will be surprised just how much information exists, *for free*, on the Web for entrepreneurs willing to do a little homework.

Be thorough investigating these areas. The result should point the way to the robust business opportunity you need to start a successful company. In fact, if you have the passion, it will be hard to pull yourself away from the computer: There will be so much information! However, after a couple of hours at the keyboard, sit back and craft a story in your mind about the most attractive part of the industry you wish to enter. We refer to that story as an *industry analysis*. That analysis leads to the industry focus for your venture. And remember, professional investors want to know if you really know the industry and its underpinnings. Here are the major components of that story.

## Conducting a Fast, Effective Industry Analysis \_\_\_\_\_

### Industry Structure, Current Size, and Growth Rates

As noted above, industries tend to be comprised of multiple segments. Each segment contains different types of customers and different uses for products and services. Some of these segments might have low growth and low profitability; others might have dynamic growth and lots of opportunities to make money. This reasoning also extends to the niches within major industry segments. Understanding an industry structure is essential for developing an industry focus, and from that, a compelling plan.

Current size and growth rates for major segments/niches are critically important. Starting a new venture in a flat or declining segment is also usually a waste of time. Look for areas where robust growth is anticipated for years to come. “A rising tide,” as the saying goes, “lifts all boats.”

### TIP: USING GOVERNMENT DATA SOURCES TO SIZE INDUSTRIES, SEGMENTS, AND NICHEs \_\_\_\_\_



While it is often possible to find reports on the Web that present current industry size and projected growth rates—and from these, to create an industry structure—sometimes you need to go to the source data behind these reports. Certain regions in the world maintain excellent databases for sizing industries. For example, there are the North American Industry Classification System (NAICS) and U.S. Census Bureau data ([www.census.gov/eos/www/naics](http://www.census.gov/eos/www/naics) and <http://census.gov/econ/census07>). NAICS provides common industry definitions for the United States, Canada, and Mexico, and groups the economic activities of specific companies into specific industries and their major segments. Similar classification systems exist in Europe, Japan, and the BRIC countries (Brazil, Russia, India, and China).

Let’s say you want to start an organic, hydroponic vegetable growing business that would locate greenhouses on the rooftops of large, urban retail stores and reuse the heat and water from these stores for climate control in the greenhouses themselves. Using NAICS, you would find the “industry” defined as “Sector 11”—called

Agricultural, Forestry, Fishing, and Hunting. Then, you would drill down to Crop Production—“Subsector 111.” In doing so, you have refined your industry space to a specific segment. Here, you can examine market size and growth across a range of crops. But, given that you intend to operate in the “greenhouse” space, you should define and identify your target more narrowly—a classic example of focusing in on a “niche.” We do this by looking at “Subsector 1114”—labeled Greenhouse, Nursery, and Floriculture Production—that provides more specific insight regarding the size and growth of that niche. But wait! It is even possible to drill further, to Subsector 11141—Food Crops Grown Under Cover (exactly what you will be doing). It is possible to drill down to another level—Subsector 111419—and examine data on specific crops grown under cover. Using these data, you discover that organic tomatoes are in greater demand and selling at significantly higher margins than mushrooms! These industry data will help you to properly plan your product offerings.

## Major Trends Sweeping Across an Industry

Most industries are in flux, driven by the combination of technological innovation and larger societal trends and challenges. This creates new possibilities for entrepreneurs and threatens existing incumbent firms competing with yesterday’s products, services, and business models. In this part of your industry analysis, you need to understand the major trends affecting customers and competitors in your target industry.

Here are a few examples to consider.

- The security industry: September 11 created a new segment called homeland security. A host of startups and large defense contractors have been innovating with systems that feature smart software using new, tiny sensors to gather real-time information in the effort to stop terrorists. This continues to be a robust market.<sup>5</sup>
- The healthcare industry: The aging of the population, as well as new government regulations, have created growth opportunities in a range of segments: cost control in hospital-based care; new monitoring technologies for home healthcare; and new types of drugs based on technologies such as DNA sequencing, proteomics, and the like.
- The energy industry: The cost of fossil fuels is driving change across multiple industries, be it solar/wind power, materials for home construction, transportation, and the distribution of electricity itself—all the way down to our refrigerators!
- Government regulations for specific industries: Government regulation can drive entrepreneurial opportunities. For example, in financial services, fraudulent company accounting led to the Sarbanes-Oxley legislation put into effect in 2002 in the United States, and to a host of new software and service ventures to help companies become compliant.

There are often news stories on these major trends, new product announcements, and customer applications that can give you a sense of change and innovation. Each region of the world has its own information sources—so search them out on the Web and use them!

<sup>5</sup>Meyer, M. H., & Poza, H. (2009, May). Venturing adjacent to the core: From defense to homeland security. *Research Technology Management*, 31–48.



### TIP: USING TRADE ASSOCIATION DATA TO GET A HANDLE ON INDUSTRY SIZE, SEGMENTS, AND GROWTH RATES

Trade associations and other related nonprofit groups often gather activity-related information from their respective members and make these data available to the public. This can be a great source of data on industry size, industry segments, growth rates, and major trends. These data are often updated on a regular basis, so the information is current.

There are literally thousands of different trade associations, not just in the United States but around the globe. You can see if there is a trade group for your target industry by simply doing a Web search for “trade association [industry name].” Or your university library might have a copy of the *Encyclopedia of Associations*, which contains information on more than 150,000 specific trade associations, both in the United States and abroad. From these searches, you can then go to the association’s Website and search for freely available information.

Figure 1.3 shows an example. It comes from an industry trade group, the U.S. Travel Association ([www.ustravel.org](http://www.ustravel.org)). After taking a look at the data in the figure, visit the association’s Web site and look under the “Research” menu to see specific forecasts for domestic and international travel, as well as the number of trips for business and leisure travelers. Another Website maintained by the U.S. Travel Association, [poweroftravel.org](http://poweroftravel.org), provides more information, such as the fact sheet shown in Figure 1.3. You will also see that nearly all association Websites have reports both for the public and for members.

There are also many industry research consulting firms that gather similar types of data and pride themselves on being experts in predicting industry trends. Your business library just might have access to some of these research firms’ publications. One of the best in this regard is Frost & Sullivan. Some business research libraries have Frost & Sullivan reports on their shelves. However, be prepared to see a price for such reports in the hundreds of dollars, if not more. This, or joining a trade association, might be an investment you have to make to gather the data you need to raise substantial amounts of capital from professional investors. For now, however, look for industry data on the Web or ask friends who might already have access to such data. Without the numbers, it will be hard to objectively assess industry attractiveness in terms of size, growth, and the most attractive segments for starting a new venture.

Data such as these will prove to be very useful later on when you are writing the Industry Analysis section of your business plan (not until Chapter 11!). So, whatever data you gather, remember to place them in an electronic or physical folder, clearly marked for later use.

## Competition and the Existence of Successful Business Models

Some industries have one or two large leaders and half a dozen second-tier competitors, all jockeying for incremental gains in market share by introducing a new product or service and, just as often, lowering prices. It’s very tough for a startup to compete in such an environment. A new corporate venture, on the other hand, stands a chance because it can often leverage the corporation’s brands, distribution channels, manufacturing, and credibility to break into the market with a new solution.



# U.S. TRAVEL ANSWER SHEET

FACTS ABOUT A LEADING AMERICAN INDUSTRY THAT'S MORE THAN JUST FUN



## LEISURE TRAVEL

- Direct spending on leisure travel by domestic and international travelers totaled **\$564 billion** in 2011.
- Spending on leisure travel generated **\$86 billion** in tax revenue.
- 3 out of 4** domestic trips taken are for leisure purposes (77%).
- U.S. residents logged **1.5 billion** person-trips\* for leisure purposes in 2011.
- Top leisure travel activities for U.S. domestic travelers: (1) visiting relatives; (2) shopping; (3) visiting friends; (4) fine dining; and (5) beaches.

## BUSINESS TRAVEL

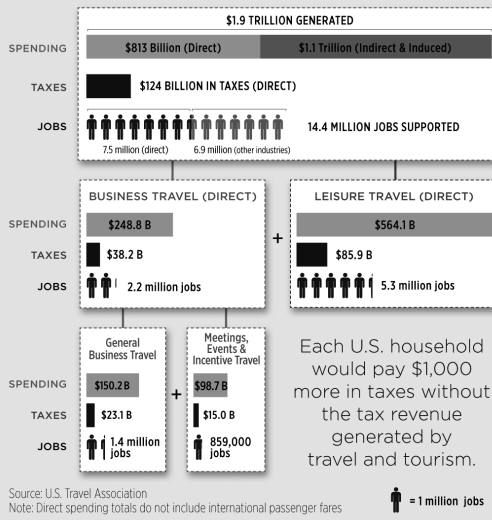
(Including Meetings, Events and Incentive)

- Direct spending on business travel by domestic and international travelers, including expenditures on meetings, events and incentive programs (ME&I), totaled **\$249 billion** in 2011.
- ME&I travel accounted for **\$99 billion** of all business travel spending.
- U.S. residents logged **458 million** person-trips\* for business purposes in 2011, with more than one-third (36%) for meetings and events.
- For every dollar invested in business travel, businesses benefit from an average of **\$12.50** in increased revenue and **\$3.80** in new profits (Oxford Economics).

\* Person-trip defined as one person on a trip away from home overnight in paid accommodations or on a day or overnight trip to places 50 miles or more [one-way] away from home.



## U.S. Travel Industry Impact



### SOURCES OF TRAVEL SPENDING



TOTAL: \$813 billion

Source: U.S. Travel Association

## BY THE NUMBERS

(all data 2011)

**\$1.9 trillion:** Economic output generated by domestic and international visitors (includes \$813 billion in direct travel expenditures that spurred an additional \$1.1 trillion in other industries)

**14.4 million:** Jobs supported by travel expenditures (includes 7.5 million directly in the travel industry and 6.9 million in other industries)

**\$194.5 billion:** Wages shared by American workers directly employed by travel

**\$124 billion:** Tax revenue generated by travel spending for federal, state and local governments

**2.7%:** Percentage of nation's gross domestic product (GDP) attributed to travel and tourism

**No. 1:** Where travel ranks among all U.S. industry exports

**1 out of 9:** U.S. jobs that depend on travel and tourism

**No. 6:** Where travel ranks in terms of employment compared to other major private industry sectors

**98%:** Percentage of travel industry firms with 500 or fewer employees

**2 billion:** Number of person-trips\* that Americans took for business and leisure purposes

**62.3 million:** Number of international arrivals in the U.S. in 2011, including 27.9 million from overseas markets

Travel is among the **top 10 industries** in 48 states and D.C. in terms of employment



## INTERNATIONAL TRAVEL

- In 2011, international traveler spending (export receipts) totaled **\$153 billion** and travel spending abroad by Americans totaled **\$110 billion** (travel import payments), creating a trade surplus of **\$43 billion** in favor of the U.S.
- The U.S. received **62.3 million** international arrivals in 2011. Of those, approximately **27.9 million** were from overseas markets and **34.4 million** were from Canada and Mexico.
- The United States' share of total international arrivals is **6.4%** (down from **7.5%** in 2000).
- International travel spending directly supported about **1.2 million** U.S. jobs and wages of **\$28.5 billion**.

- Each overseas traveler spends approximately **\$4,300** when they visit the U.S. and stay on average more than **17 nights**.
- Overseas arrivals represent **45%** of all international arrivals, yet account for **78%** of total international travel receipts.
- Greatest challenges facing international visitors: burdensome visa process; unwelcoming entry experience.
- Top leisure travel activities for overseas visitors: (1) shopping; (2) dining; (3) city sightseeing; (4) visiting historical places; and (5) amusement/theme parks.

### TOP 5 INTERNATIONAL MARKETS TO USA (ARRIVALS)

ORIGIN OF VISITOR	2011
Canada	21.0 million
Mexico	13.4 million
United Kingdom	3.8 million
Japan	3.2 million
Germany	1.8 million

### TOP 5 HIGH-GROWTH MARKETS THRU 2016 (forecast)

ORIGIN OF VISITOR	ARRIVALS % CHANGE '16/'11
China	274%
Brazil	135%
Russia	131%
Australia	94%
Argentina	70%

Source: U.S. Department of Commerce - Office of Travel and Tourism Industries

Direct spending by resident and international travelers in the U.S. averaged \$2.2 billion a day, \$92.8 million an hour, \$1.5 million a minute and \$25,778 a second.



The U.S. Travel Association is the national, non-profit organization representing all components of the travel industry that generates \$1.9 trillion in economic output. It is the voice for the collective interests of the U.S. travel industry and the association's 1,400 member organizations. U.S. Travel's mission is to promote and facilitate increased travel to and within the United States. U.S. Travel is proud to be a partner in travel with American Express®. For more information, visit [www.USTravel.org](http://www.USTravel.org) or [www.PowerofTravel.org](http://www.PowerofTravel.org).

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U.S. TRAVEL ASSOCIATION

Figure 1.3 An Example of Trade Association Industry Information: The U.S. Travel Association

Source: Fortune Magazine, May 4, 2009; Copyright © 2011, US Travel Association.

Most entrepreneurs should avoid areas of concentration and intense competition and seek out *fragmented markets* in which there are many small competitors and no dominant leaders. In fragmented markets, anyone with an attractive value proposition, a strong work ethic, adequate capital, and imagination has a fair shot at success.

As you study an industry and its various segments, take note of companies that achieved success in your specific industry segment or niche. Look at the products or services they provided, how they sold these into market, how they charged for things, and their recipe for making money. Also—just as important—are there relatively new companies in your target industry that have not only developed good products or services, but designed a way to make money—a business model—that seems to be scaling to the point of achieving considerable success? These models of past success and emerging success are so very important to understand as you design your own business. They will also tell you which parts of your target industry are generating profits for participants. Take note of these companies and read all you can about them. Then begin to consider the best way for your venture to proceed and to make money.

For mature industries, you can also go to Yahoo! Finance, type in the name of an industry leader, and review the “competitors” section. If the company has a lengthy history, you’ll find a wealth of information.

## New Companies, Venture Deals, and M&A Transactions

Part of your industry analysis is to understand which segments/niches of your target industry are the subjects of venture investment activity. This is important because it greatly increases your chances of raising money in the likely event that you’ll need startup capital.

The venture capital (VC) industry employs thousands of highly trained professional analysts to do exactly what you, an amateur, are trying to accomplish: identify areas of commercial growth and opportunity. When they find those areas, venture financing quickly follows. So let these professionals be your reconnaissance scouts and follow their money trail. Pricewaterhousecooper’s *MoneyTree Report* ([www.pwcmoneytree.com](http://www.pwcmoneytree.com)) tabulates recent quarter venture capital investments by technology industry. While most startups do *not* attract VC funding, VC behavior is a good indicator of where growth is anticipated and where other venture financiers, such as angel investors, are placing their bets. In the last quarter of 2011, for example, the top industries for venture capital investment were software, biotechnology, industrial/energy, medical devices, and IT services, according to the *MoneyTree Report*, a free source of information on the Web. You can also get regional breakdowns for investments. Specific news reports provide indicators of more niche-specific investments, such as Cloud computing plays in IT services. Yahoo! Finance and Hoovers are also excellent sources for M&A activity, another clear sign of hot industry areas.

## Stage of Industry Life Cycle

Entrepreneurs also need to consider the stage of the industry life cycle. This life cycle has several stages: *emergent*, *growth*, *maturation*, and *decline*, driven by the rate of technological innovation and technology-driven change. This cycle is sometimes expressed as an S-curve<sup>6</sup> similar to that shown in Figure 1.4.

- The initial stage is a period of slow revenue growth, with few direct competitors. Many entrepreneurs in this stage are still working out their technology bugs and forming product/service concepts. A credible market may not yet exist. Nanotechnology (which is new material science working on the scale of a billionth of a meter!) has been in this emergent

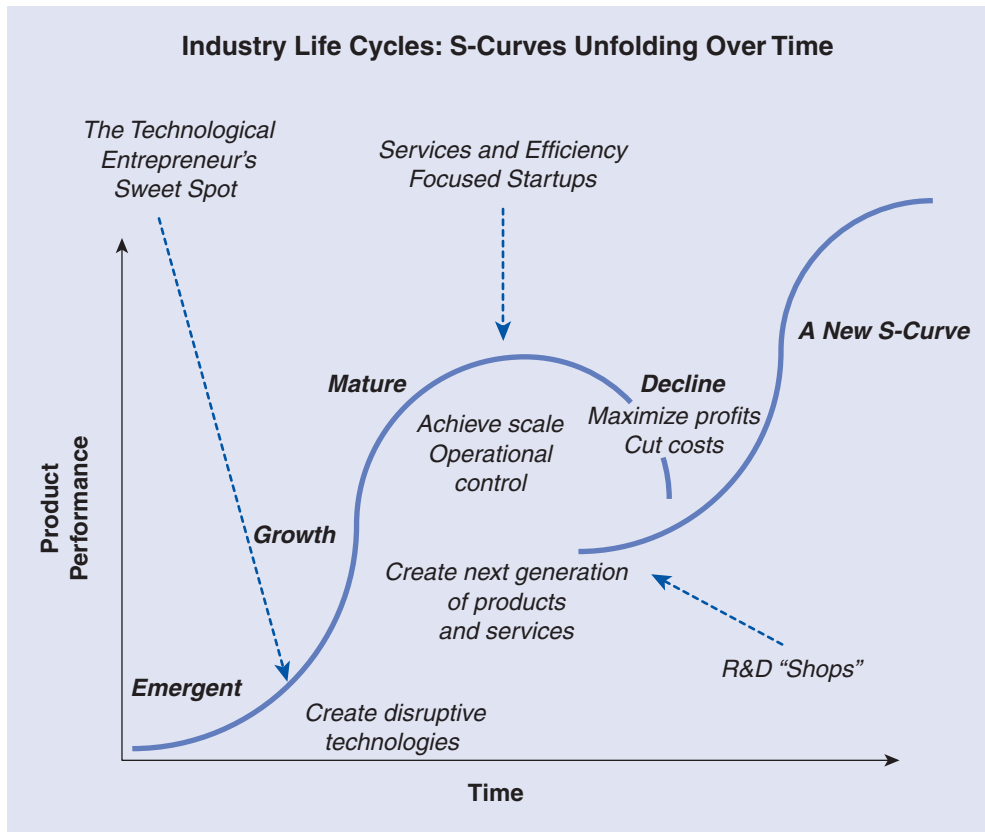
<sup>6</sup>Utterback, J. M. (1994). *Mastering the Dynamics of Innovation*. Boston: Harvard Business School Press.



stage for years, but is finally breaking out of it with a range of applications, from non-iron clothes, to indestructible house paint, and soon, to better-targeted drug delivery.

- The next stage in the life cycle is characterized by rapid growth. This is when the product or service concept really clicks with customers. The cell phone segment of the telecom is blossoming in this stage. Every consumer, rich or poor, wants a cell phone.
- Eventually, growth markets become saturated, the rocketing growth curve tapers off, and competitors find themselves in the maturity stage of the cycle. The many companies now in the field resort to incremental changes, price discounts, and other mechanisms to generate revenues and poach customers from competitors. Gradually, weaker firms are forced out of the industry and only a handful of firms are left standing. The office productivity segment of the software industry is in the mature stage of its cycle, with just a few players holding the majority of the market share.
- Lastly, when a traditional industry paradigm stagnates, it goes into decline. This opens the door for an entirely new generation of technology and an entirely new S-curve. The new pioneers work to disrupt old products and business models. Simply think Apple, its iTunes/iPhone combination, and how its software, services, and hardware have disrupted both the media and cell phone industries.

The industry life cycle has important implications for technology-intensive ventures. At the front of the life cycle, a nanotechnology entrepreneur simply has to find an application that will show his or her technology not only working but also producing value for customers. At the back side of the life cycle, a brilliant engineer seeking to develop software, systems, or



**Figure 1.4** Industry Life Cycles

services for oil or gas producers surely is going to face several cost and pricing pressures, as will the entrepreneur targeting the automotive industry (original equipment manufacturers—OEMs). Costs are counted down to the pennies in mature industries.

Experience shows that technology-based ventures enjoy the greatest success when they enter the field *near the beginning* of the growth stage. This is the entrepreneur's sweet spot, shown in Figure 1.4. Customers are aware of the new technology, have money to spend, and are anxiously awaiting new solutions. Perfect. Too early in the game, and the entrepreneur has to wait for years for the technology to ripen. Too late, and you are up against well-established players. Jump to a next S-curve, and you are back in the research game again. Remember, there is a difference between invention of new science and technology, and innovation that uses proven science and technology to solve real-world problems. You want to be the latter.

News stories on company events, product announcements, and customer applications can give you a sense of change and innovation. Look to specialized industry publications such as *Computerworld* (for hardware and software innovations) or *New Scientist* (for chemistry and hard science breakthroughs). For environmental innovation, see Hot Topics on [www.EarthPortal.com](http://www.EarthPortal.com) and online publications of the National Council for Science and the Environment. Or, once again, go to Yahoo! Finance and read the news stories on industry leaders. And, of course, a carefully constructed Google search may turn up incredibly valuable information on technology-driven industry dynamics.

## Channels of Distribution Within an Industry

The entrepreneur seeks strong, clear channels of distribution that are receptive to new product or service innovations. For example, the third-party software business development programs of Microsoft, IBM, Oracle, and others provide a path to their respective customers. Or, if you are doing a consumer products venture, understanding the willingness of premium specialty retailers to try new products such as yours is very important. Whole Foods Market, Petco, and Target are all good examples. If you are doing a life sciences venture, today large pharmaceutical companies are desperate to fill their depleting pipelines with new potential drugs. Each one of these represents channels as well as development partners. New, small firms can prosper by aligning themselves with larger corporations that have access to large markets.

## Suppliers

You need to make sure that the supply of necessary components, technologies, or ingredients needed for your types of products or services are readily available and reasonably priced. For a food company, that means recipe ingredients. If you are thinking of manufacturing solar energy panels, you should check the availability of key inputs, such as silicon. For a software company, these are the necessary software development tools. For a services company, that means reasonably priced labor that can be trained up to standard, and then low-cost yet powerful information technology to support the services.

On the same note, how eager are suppliers of key materials to deal with startups such as yours? You may find, for example, that a major competitor has “locked up” those suppliers. You have to be proactive and actually ask whether or not suppliers are open to cooperate with you. Suppliers will be honest if you ask, but it is your responsibility to determine this situation.

## Barriers to Entry

A thorough investigation of a target industry must also consider the presence of barriers to entry and what, if anything, can be done to surmount them. A barrier to entry is any requirement—capital, technical know-how, and so on—that makes industry or market entry difficult or impossible. Of the many barriers faced by industry outsiders, three are particularly important for new venture entrepreneurs: capital and time, manufacturing, and marketing.

### *Capital and Time*

Entry to some industry segments/niches requires huge amounts of capital—amounts that few entrepreneurs can raise. In others, years of R&D are needed to develop marketable products. As you can imagine, these two barriers usually go hand in hand. Consider, for example, the pharmaceutical industry, where more than ten years and close to a billion dollars are typically needed from start to launch for a single new drug! On the other hand, Web-based social networking presents minimal time and small amounts of investment capital to get started. Launching a new Web-based business can be fast and inexpensive.

### *Manufacturing*

Certain manufacturing industries require particular types of machines to produce a given category of products. For building products, complex woodcutting, forming, and assembly machines are needed; for certain plastics and food products, specially built extrusion machines are required. And the list goes on. These machines can cost millions of dollars. An entrepreneur who insists on entering a capital-intensive industry needs to consider external manufacturing options—often called contract or co-manufacturers—to source his or her products. An increasing variety of these options exists both here and abroad.

### *Distribution*

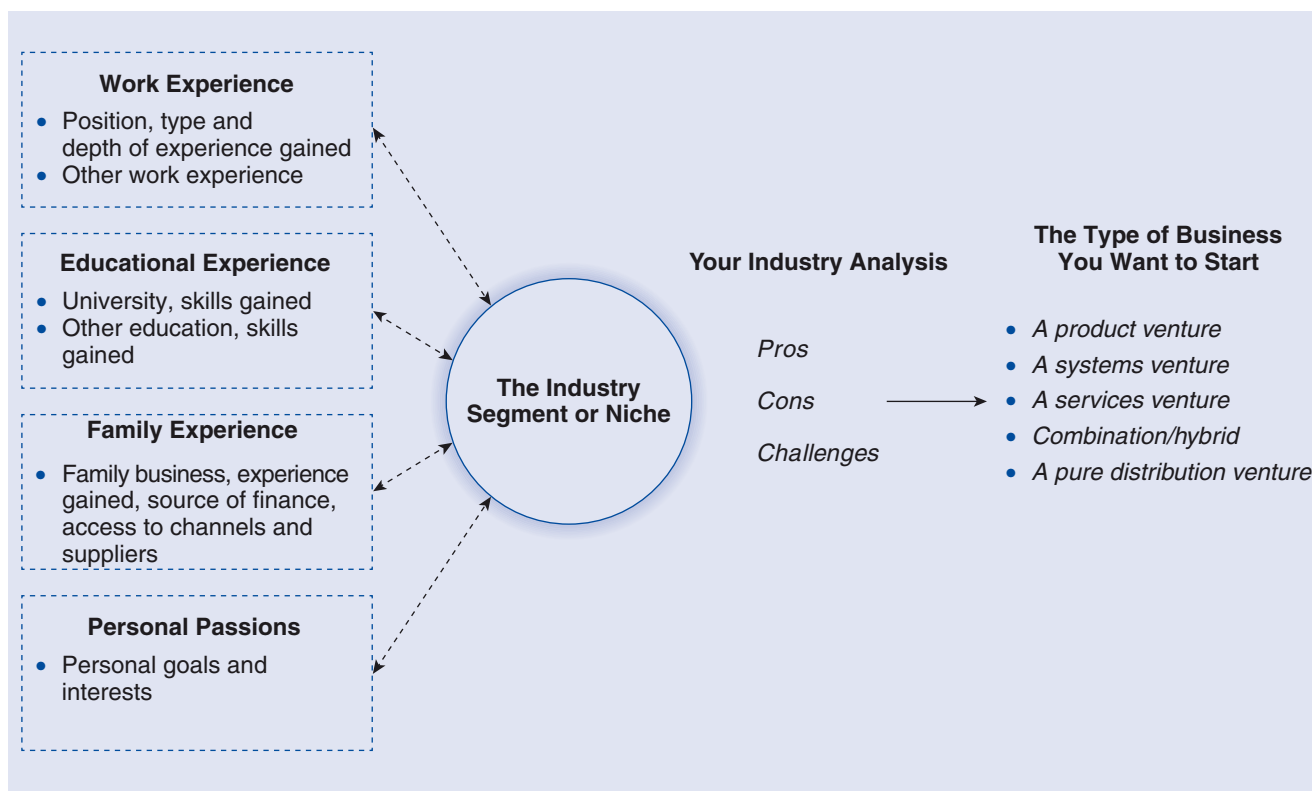
Marketing is the third major barrier to entry that an entrepreneur needs to consider. Gaining access to large retailers can be difficult and costly. For example, a new food venture faces a serious financial obstacle if it needs to pay “slotting fees” to national groceries in order to get its products on the shelves. Slotting fees can reach to several million dollars or more. Whole Foods Market, on the other hand, does not charge slotting fees; nor do “club” channels such as Costco. It is no surprise that food entrepreneurs go to specialty retailers and club stores to avoid this huge upfront expense. And while it can be difficult, working with larger resellers can be achieved even for the small firm. A small premium pet snack entrepreneur in Boston, for example, recently concluded an agreement with Target to create a branded “store in store” merchandizing area for his own products. And IBM has been gobbling up software products by the dozen from independent third parties to drive its own revenue. The lesson is that if you’ve got something good and you have the confidence to say it, the big boys may very well want your wares.

## Defining the Type of Business You Might Want to Start

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Figure 1.5 shows our progress so far in this chapter, and where we go next. On the left is your self-assessment of your personal factors; in the middle, your cogent industry analysis; and on the right, an initial definition of the type of business you want to start given your interests and the target industry segment or niche.

Figure 1.5 also shows the third and last step of defining the scope of a venture: deciding what type of business to be in terms of creating and providing products, systems, services, a hybrid combination thereof, or a pure distribution play. There are usually many ways to build a successful company in a given industry. In general, these types of businesses fall within these four categories—or some type of hybrid combination. It is also important to appreciate the differences between these types of businesses in terms of how they generate revenues. It is to the last step in determining the focus of a venture that we now turn our attention.



**Figure 1.5** Defining Your Industry Focus and the Type of Business You Want to Start

## Different Types of Business Opportunities in the Same Industry

It is not unusual to find customers in the same industry being served by different companies focusing on different things: some just on products, others on “systems,” others just on services, and others largely as pure distribution companies selling other companies’ products and services.

Suppose, for example, that we wanted to start a venture in the supply chain management industry, with a focus on mass-market retailers. Those retailers, led by Walmart, want to track every product they sell from suppliers’ factories to their store shelves. Now, let’s consider how different business “types” created by entrepreneurs could serve the needs of Walmart and others needing next-generation supply chain management solutions.

*Products.* We might create radio-frequency identification (RFID) sensors and readers capable of tracking products in transit by item and by pallet. The venture will obtain patents on its sensor technology and find third-party manufacturers to produce its sensors and readers. We would be selling RFID tags and tag readers.

*Systems.* We might create software-based systems to acquire data from the other vendors’ RFID readers in real time, communicate those data to central servers armed with sophisticated workflow management software, and use software applications to inform customers of the status of products in production, in transit any place in the world, in the warehouse, or in the store. Customers will use these data to optimize inventory planning and distribution center operations. We are selling “systems” and support services for those systems.

*Services.* We take other companies’ sensors, RFID readers, and server software, package it all together, and provide the implementation and customization services needed to tune these technologies for specific situations. We are selling our expertise and our bodies—in other words, a systems integration and consulting services firm.

Or we could try to be like IBM (which is hard to do for a startup venture) and provide a hybrid offering of several or more of these three types of businesses. Alternatively, we could propose to be a pure distribution player in a given industry sector. For example, one of our former students, Doug, took over, with his brother and cousins, the family's liquor distribution business. They developed a growth plan, and together have tripled the size of the business so that its sales are in excess of \$500 million a year. Now *that's* a good distribution play. Many eCommerce ventures propose new distribution models as well. For example, pet food is now being custom ordered and drop shipped in the greater New York City area, using the Web as an ordering portal with a well-managed back-end fulfillment operation. The fact is that there are different creative ways to make money in an industry—and it is up to you to come up with different ideas, weigh the pros and cons of each, and take your best shot and begin to focus on a type of business. Once you delve into the field research with customers in the following chapters, you might learn new things that change your mind and shift the strategy of the venture into a different vector, say, from products to services. That's okay, but you need to put a stake in the ground in order to get started. It makes everything all the more tangible and real.

## Making Money Is Different Based on the Type of Business

The three business types not only differ in how they create value for customers, but they also exhibit different revenue, cost, and margin profiles. Consider first a product-type business. For every \$100 in product sales revenues, \$30 to \$40 is spent on manufacturing, and another \$25 to \$40 is spent on selling, marketing, R&D, and administration, leaving a net operating profit margin in the range of \$15 to \$25. The point of leverage in this business is to design a great set of products and manufacture thousands if not millions of them at a low cost per unit. Such businesses can require large capital outlays for production, although outsourcing can be a real advantage of “lean” startups. For example, one of the new battery manufacturers for electric cars raised \$50 million for R&D from venture capital firms, but almost \$500 million in debt and equity from various sources to build proprietary manufacturing capability.

Now consider the typical systems company. For every \$100 of revenue, \$20 to \$30 might be spent on R&D, and another \$10 to \$20 might be spent on sales, marketing, and administration, leaving a net operating profit of \$50 or more. At least, that is the goal! The point of leverage for a systems company is to hire the smartest programmers, have them create fantastic software, and then ship it electronically with virtually no cost of goods. The high profit margin enjoyed by this type of business explains why software continues to draw heavy venture capital investments.

Services companies aim to be product and systems *agnostic*. They are consulting firms, equipment service firms, transportation services providers, home healthcare providers, energy production and management firms, and so forth. Most are labor intensive. Thus, for every \$100 of revenue, a typical services firm spends a third on labor; a third on technology, marketing, and administration; and then tries to walk away with \$33 or more in operating profit. Its point of leverage is the design of the service, the people who deliver the service, and the technology that helps them deliver the service efficiently and effectively.

Pure distribution plays—such as the liquor distributor—tend to make about 5% to 8% operating profit on revenue. The key to success is logistics, and with that, information technology. Think of the UPS drivers in your area and their handheld devices. UPS's combination of people, trucks, and information technology is its secret for profitably delivering more than 20 million packages a day! Lately, entrepreneurs have been innovating on distribution models, including the Groupon model where it gets 50% of sales price of heavily discounted offerings, prices driven down by the grouping of individual consumers into larger purchasing bodies. Groupon shows that *business model innovation* can be every bit as exciting and rewarding as developing a new product or service.

In short, the four basic types of businesses—product-focused, systems-focused, services-focused, and pure distribution plays—are completely different in terms of what they do and how they make money. Their points of leverage are also entirely different. You can learn about

the revenues, costs, and margin profiles of companies operating in your industry target through Yahoo! Finance and similar sources. Look up the industry leaders and examine their income statements.

## Making the Choice of the Business Type for Your Venture

And so, having selected an industry and screened various possible segments and niches in that industry, you must now decide, “What type of business do I want to have?” Apple’s decision in the mid-2000s to shift some of its energy to a distribution business—iTunes—demonstrates the power of type choice on earnings and company value.

Most entrepreneurs make the “type” decision by considering internal factors and the analysis they used in screening industries:

- For which type of business do I have the experience and education needed to succeed?
- What am I really good at? This is not only in terms of creating a product or system or service, but also in terms of *selling* the innovation.
- Do I want to create a new product or simply integrate different products together within a system or service? Am I most comfortable with the idea of providing a service?
- Which type of business in my chosen industry segment/niche do I perceive to be in greatest demand by customers?
- For which type of business is there the least direct competition? What type of business represents something truly new in the industry?

Time is another issue to consider in making the choice of business type. The longer it takes to generate revenues, the more difficult it will be to obtain financing—and the greater the risk for the entrepreneur.

As a general rule, product companies seem to take the longest time to move from business idea to first paying customer. A unique and appealing product must be designed, prototyped, customer tested, and manufactured. Even a simple product can take 18 months or longer to move to market. Medical products can take much, much longer! Systems companies tend to face a one- to two-year run-up to a workable product: lots of software development and iterative testing, a beta site with a few lead users, and then it’s off to the races. Services companies, on the other hand, can start providing services right away if the team is capable. The time to first revenue for pure distribution is totally dependent on whether it is traditional warehouse or retail-type play, or a Web model such as Groupon.

Time to market is not the only consideration, of course; make a great product and there is far more leverage on time and effort and capital than all but the best of services businesses. Software can be even better.

In this chapter, you learned the importance of gathering information on the attractiveness of industries and the segments and niches within those industries. Successful entrepreneurs use information to drive their venture decisions. It is critical that you use objective information to determine if the innovative concept you have in mind also has the makings of becoming a good business. Do not let your passion for an idea interfere with applying common business sense to find those areas where your experience, your connections, and the industry dynamics can combine to create a great type of business.



## Reader Exercises

Now it is your turn to apply these venture scoping ideas for how to establish a focus for your venture. The following exercises should be done sequentially.

Also, a few words about student project teams. This type of work is often performed in teams to emulate the venture team startup process. If you do recruit team members for a project, have a separate discussion offline in terms of roles and responsibilities. Do this early in the project so that everyone understands the amount of “skin in the game” that each team member is willing to contribute. Then, have a process for reviewing each other’s work.

This commitment to getting the work done on time is so important. You don’t want to have people join your team just because they think your idea is “cool.” They must be willing to work because it is only through that work that your venture idea will continue to improve. As a fledgling entrepreneur, you don’t have the time, nor should you have the patience, to carry noncontributors on your back.

Now on to the assignments for this chapter. It is time to define your industry and business focus!

### Step 1: Score Your Individual LOT-R Test (see Figure 1.1)

- You should score only statements 1, 3, 4, 7, 9, and 10. The other statements are “fillers.”
- Reverse score statements 3, 7, and 9. Reversing scoring means if you score a 5 make it 1, 4 make it 2, 3 make it 3, 2 make it 4, and 1 make it 5. For example, if for statement 3 you score a 5, add the score of 1 to your total.
- Sum your scores for statements 1, 4, and 10 and the reversed scores for statements 3, 7, and 9.

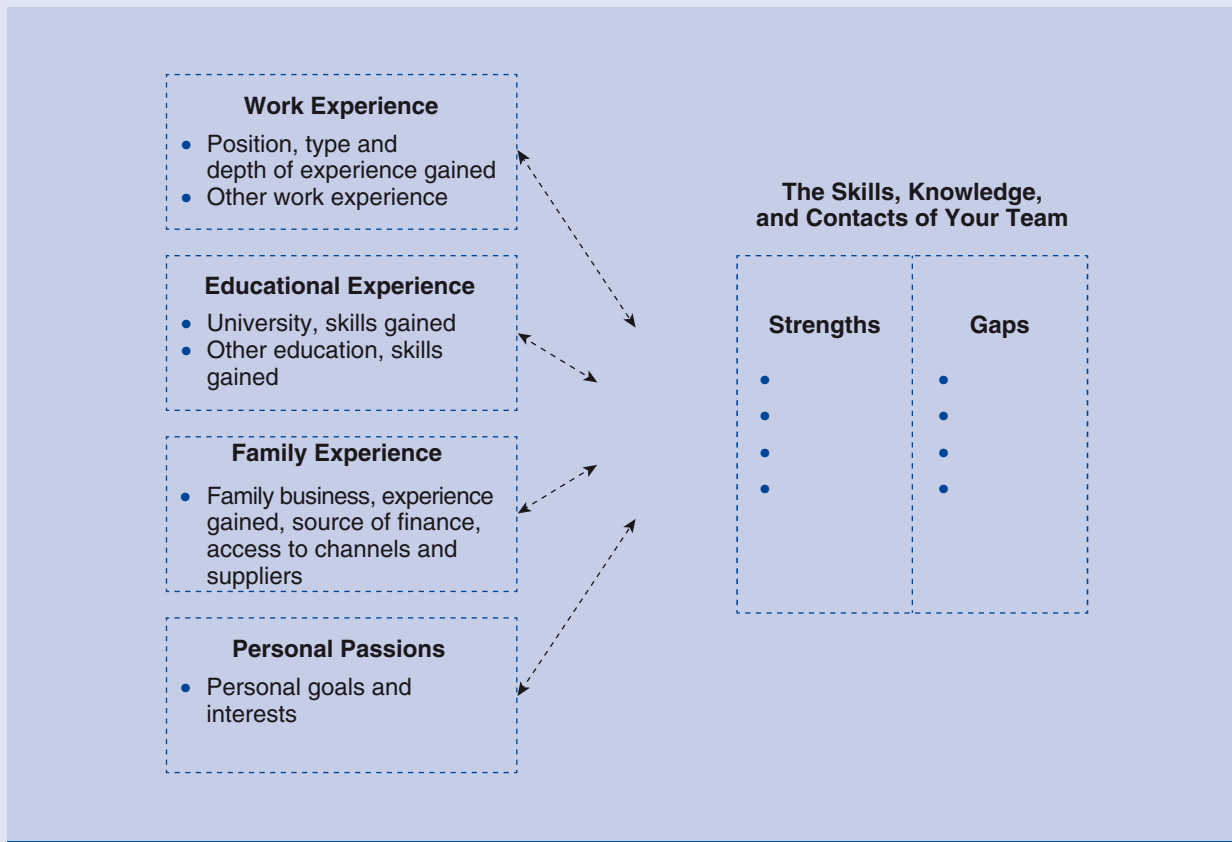
The scoring range is from 6 to 30. It should be pointed out that there are no true cut-offs for optimism and pessimism with this test since the constructs are a continuous dimension of variability. However, for the purposes of understanding your score, you should consider the midpoint score is 15. Therefore, any score below 15 would indicate that you tend to be pessimistic in your outlook. A score above 15 means you tend to be optimistic. That is, you tend to possess dispositional optimism. For the entrepreneurial journey, the higher the score the better. In fact, most of the successful entrepreneurs we have studied tend to score in the mid to high 20s. If your score is low, it does not mean you should give up on entrepreneurship. Don’t get depressed! But you might have to practice changing your mindset. Use this course to begin that effort. The work you do in this course will provide plenty of opportunities to practice!

For those readers who score a 30, just make sure that your tremendous optimism does not blind you from accepting certain realities such as customers telling you that your idea is plain wrong for their needs. In other words, it doesn’t work to be blindly optimistic and ignore the realities you may encounter as an entrepreneur. Instead, embrace “realistic optimism” and combine it with pragmatism—that makes a powerful combination!

### Step 2: The Team Needs to Collectively Complete Figure 1.6

Put down your specific work and educational experience as well as family history as it pertains to business and entrepreneurship. After each team member does this for him or herself, you then need to assemble a composite list for the entire team. In a different color (such as red), make an equally important list of the skills, work experience, and connections that appear to be lacking for the venture you have in mind. If you have gaps, don’t let that stop you; they can help direct your choice of new team members or the professors or advisers you seek out in the weeks and months ahead.





**Figure 1.6** Entrepreneurial Background Assessment

### Step 3: Conduct an Industry Analysis

This is a very important exercise. You need to search the Web and other data sources for information regarding your target industry. This includes hard numbers of the profitability of current market leaders and some intensive research on technology changes, channel changes, and competitors entering your industry. You also need to search sources such as *MoneyTree Report* ([www.pwcmoneytree.com](http://www.pwcmoneytree.com)) to see the current flow of angel and venture financing into that sector. Examples of industries might be biotechnology, software, medical devices, energy, media and entertainment, networking and equipment, or healthcare services.

Then, once you have gathered these data, we want you to score the attractiveness of each dimension in Figure 1.7 for your industry target. We have provided nine important dimensions for you to consider. Then, make an honest assessment of these dimensions, using data where possible. Is the segment/niche a good place to start a venture? Does it have favorable industry dynamics or not?

The highest possible score is 100. An industry scoring over 75 in this template is very much worth consideration as a venue for a venture. Any industry scoring below 25 should probably be avoided. If your industry scores in the midrange on the scale—say, 50—then you must think about how you will overcome industry problems and obstacles.

If the assessment score is low, you might wish to consider looking at a different industry or a different segment of the industry. Otherwise, you need to have a serious discussion about how to overcome the negative dynamics you have uncovered. When it comes time to raise money from professional investors, assume that they know the potholes just as well as anyone else. Seasoned professionals are good at uncovering “show stoppers,” defined as industry dynamics that make even a well-managed venture hard to grow.

	Facts/Data About Your Target Industry (Bullet points/facts)	Industry Score (1–10)
Current industry segment/niche size		
Industry segment/niche growth rate		
Favorable trends sweeping across industry		
Fragmented competition		
A feasible, money-making business model in the industry		
Activity in startups, financing, and deals in the segment/niche		
A favorable industry life cycle stage (not too early, not too late!)		
Existing channels of distribution in the industry		
Reasonably priced, widely available components, technologies, and ingredients		
No barriers to entry in terms of capital needed, production, and distribution		
	Total Score	

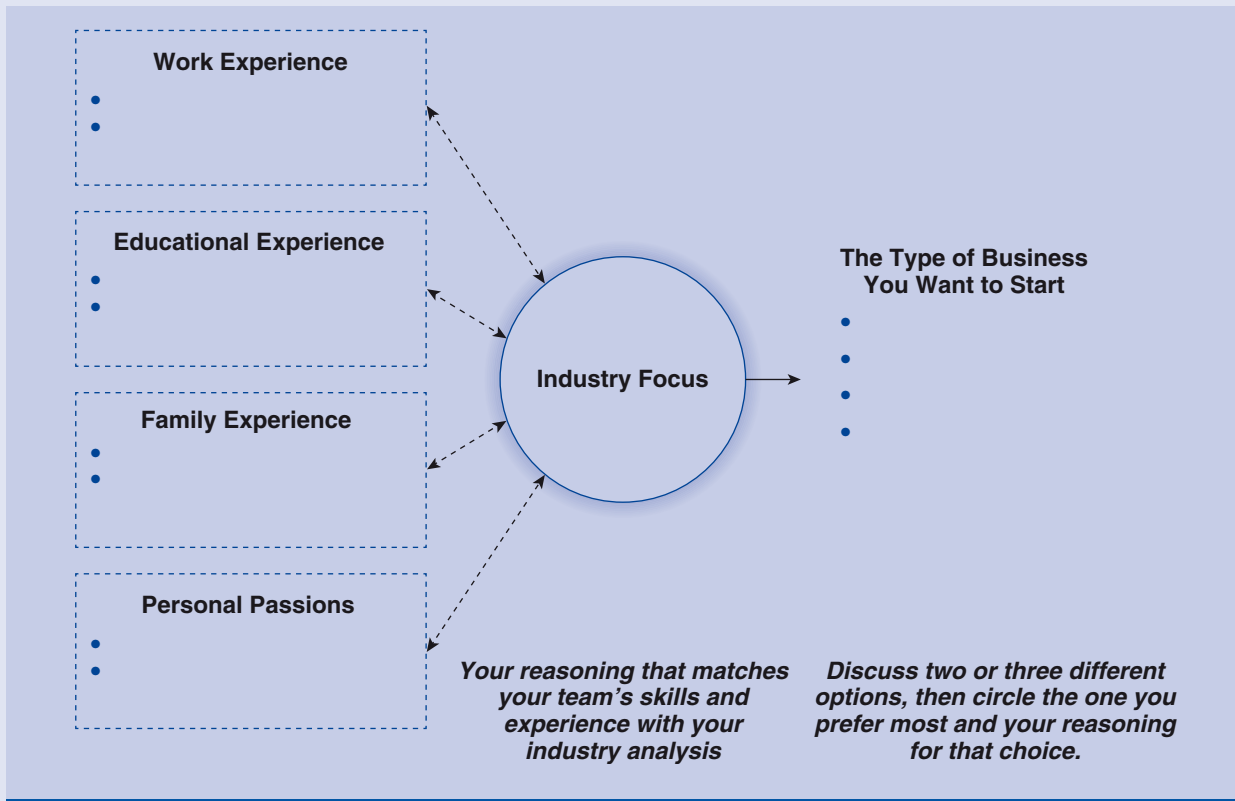
Scoring Key: 1 to 10, where:  
 1 is “a potential show-stopper for a new venture”; 3 is “a significant challenge”; 5 is “neither a barrier nor supporting success”; 7 is “conducive to a new venture”; and 10 is “an ideal setup for venture success”.

**Figure 1.7** The Industry Dynamics Scorecard

### Step 4: Bring All of This Learning Together

Figure 1.8 integrates all of the prior work into a set of venture opportunities. Based on your personal work/education/family network and passions and your industry analysis, you should now be able to identify several venture ideas. At this point, you don’t need to get too specific about the products or services in these venture ideas. Instead, focus on what they will do—the value they will bring to users—and how a business providing them can make money. Circle your favorite choice for type of business. Then prepare a crisp, concise rationale for your choice of target industry segment/niche and the type of business you prefer to start. This, dear readers, is the first important step—you will now have an industry focus! The following chapters in this book will help you refine and test that venture idea.

Great work! Now it’s time to get feedback on your templates. Your professor may organize an in-class presentation session where you can share your ideas with the rest of your classmates and benefit from their experiences and insights. Don’t be surprised if some people want to join your team, or if you want to join theirs. And the very best thing you can do next is try to meet an experienced business person or investor who has already worked in your target industry segment. It might be an alumnus of your university, a contact of your professor, or a family friend. Or it might be someone you know from work. Present your ideas and listen carefully to the feedback. Doing this early on in the game will give you an advantage beyond compare.



**Figure 1.8** Your Industry Focus and Proposed Type of Business

Visit the Student Study Site at [www.sagepub.com/meyer2e](http://www.sagepub.com/meyer2e) to access the following resources:

- Web Resources
- Video Resources
- General Resources in Entrepreneurship