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Entre- preneur- ship

Figure 4.1 Creativity comes in many forms. It can be messy, but creativity is an essential element of innovation and inventiveness, both of which can drive entrepreneurship. (credit: modification of “On creativity” by Linus Bohman/Flickr, CC BY 2.0)

Chapter Outline

- 4.1 Tools for Creativity and Innovation
- 4.2 Creativity, Innovation, and Invention: How They Differ
- 4.3 Developing Ideas, Innovations, and Inventions



Introduction

We enter the world as curious beings. However, as we grow up, we are told to color inside the lines and that real animals can't talk—direction that can squelch creativity. Many successful entrepreneurs work to unlearn some of those messages in order to tap into creative thinking. What do you do when you are given a task that requires you to be creative? Do you get out your art supplies and start drawing? Do you pull out your phone or get on your computer and head straight for a search engine? Steve Jobs, the Apple founder and well-known innovator, had a preference when it came to creative contemplation, and it had nothing to do with art supplies or smartphones. Jobs did some of his best creative thinking when he went on a walk, or a walking chat.

Why did Jobs prefer walking as a way to develop new ideas? A Stanford University study found that walking improves creative thinking.^[1] When you launch an entrepreneurial journey and set out to innovate and create, or when you hit a sticking point that requires a creative solution, it may be time to take a walk. Better yet, if you can find a friend, walk and talk. It might energize your creativity and lead to innovation and, possibly, to invention.

1 Marilyn Oppizzo and Daniel Schwartz. “Give Your Ideas Some Legs: The Positive Effect of Walking on Creative Thinking.” *Journal of Experimental Psychology: Learning, Memory, and Cognition* 40, no. 4 (2014): 1142–1152.

4.1 Tools for Creativity and Innovation

Learning Objectives

By the end of this section, you will be able to:

- Describe popular, well-supported, creative problem-solving methods
- Understand which innovation or problem-solving methods apply best in different settings
- Know where to look for emerging innovation practices, research, and tools

Creativity, innovation, and invention are key concepts for your entrepreneurial journey. Fostering creativity and innovation will add essential tools to your entrepreneurial toolkit. In this chapter, first you'll learn about a few practical tools that can assist you in your efforts to create and innovate. Then, we'll define and distinguish creativity, innovation, and invention, and note the differences between pioneering and incremental innovation. Finally, we'll cover models and processes for developing creativity, innovation, and inventiveness. The science, study, and practice of creativity and design thinking are constantly evolving. Staying on top of well-documented, successful approaches can give you a competitive advantage and may remind you that entrepreneurship can be fun, exciting, and refreshing, as long as you keep your creative spirit alive and in constant motion.

Creative Problem-Solving Methods

Creative thinking can take various forms ([Figure 4.2](#)). This section focuses on a few creative thinking exercises that have proven useful for entrepreneurs. After discussing ideation practices that you can try, we conclude with a discussion of an in-depth innovation exercise that can help you develop a habit of turning creative ideas into innovative products and services. In this section, outcomes are vital.



Figure 4.2 When your process hits a sticking point, a walk—or a walk and talk—can help boost your creativity in thinking through solutions. (credit: “beard business city colleague” by “rawpixel”/Pixabay, CC0)

Three ideation practices are discussed here. Several others are offered in links at the end of this section. The first ideation practice comes from Stanford’s Design School.^[2] The objective is to generate as many ideas as possible and start to develop some of those ideas. This practice is the quintessential design thinking practice,

or human-centric design thinking exercise, and it consists of five parts: accessing and expressing empathy, defining the problem, ideating solutions (brainstorming), prototyping, and testing ([Figure 4.3](#)). **Empathy** is the human ability to feel what other humans are feeling, which in the context of creativity, innovation, and invention is essential to beginning a process of human-centric design. Practicing empathy enables us to relate to people and see the problem through the eyes and feelings of those who experience it. By expressing empathy, you can begin to understand many facets of a problem and start to think about all of the forces you will need to bring to bear on it. From empathy comes the ability to proceed to the second step, defining the problem. Defining the problem must be based on honest, rational, *and* emotional observation for human-centric design to work. Third in the process is brainstorming solutions. The other two ideation exercises or practices in this section delve more deeply into brainstorming (also discussed in [Problem Solving and Need Recognition Techniques](#)), what it means, and how you can brainstorm creatively beyond the basic whiteboard scribbling in almost every organization. Designing for other people means building a prototype—the fourth step—and to test it. Once you apply this process to developing a product or service, you need to return to the empathetic mindset to examine whether you have reached a viable solution and, thus, an opportunity.

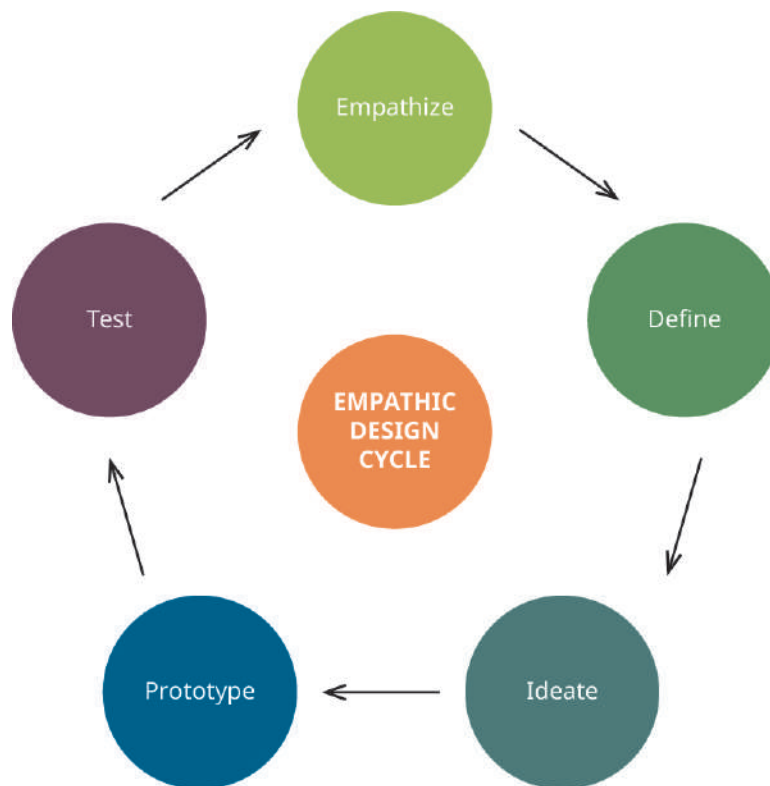


Figure 4.3 The empathetic design cycle is human-centric. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

LINK TO LEARNING

Watch this [video on human-centered design \(https://openstax.org/l/52HumnCntDesign\)](https://openstax.org/l/52HumnCntDesign) for more information, including an explanation of the phases involved.

To delve more deeply into ideation as a practice, we introduce here the Six Thinking Hats method ([Figure 4.4](#)).^[3] There are different versions of this ideation game, but all of them are quite useful for encouraging thought by limiting the mindset of those involved in the game. Being encouraged to embody one mode of thinking frees you from considering other aspects of a problem that can limit creativity when you are looking for a solution. The six hats are:

- White Hat: acts as information gatherer by conducting research and bringing quantitative analysis to the discussion; sticks to the facts
- Red Hat: brings raw emotion to the mix and offers sensibilities without having to justify them
- Black Hat: employs logic and caution; warns participants about institutional limitations; also known as the “devil’s advocate”
- Yellow Hat: brings the “logical positive” of optimism to the group; encourages solving small and large problems
- Green Hat: thinks creatively; introduces change and provokes other members when needed; new ideas are the purview of the Green Hat
- Blue Hat: maintains the broader structure of the discussion and may set the terms by which progress will be judged; makes sure the other hats play by the rules, or stay in their respective lanes, so to speak

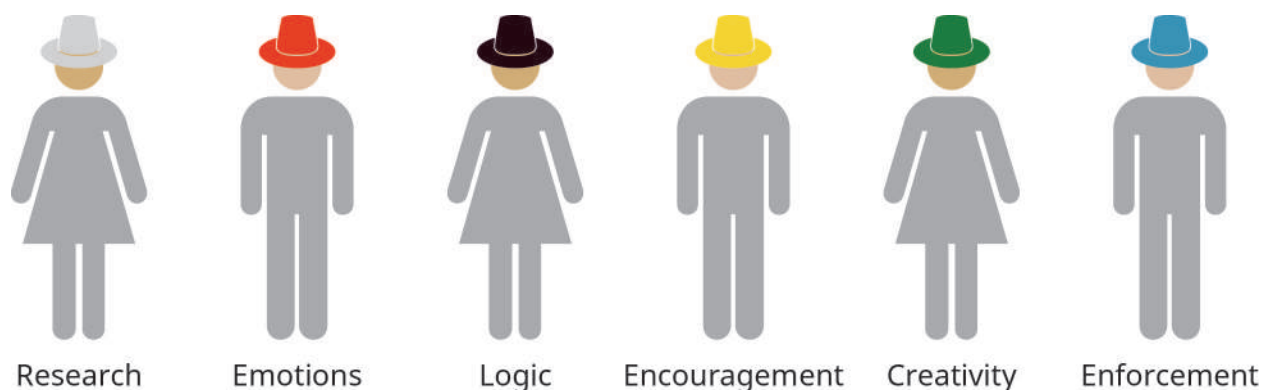


Figure 4.4 The Six Thinking Hats exercise is designed to have each participant focus on a particular approach to the problem or discussion. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

You can apply the Six Thinking Hats exercise to force structure on a discussion where, without it, several members of the group might try to wear several hats each. This game is not always easy to implement. If members cannot follow the rules, the process breaks down. When it works best, the Blue Hat maintains control and keeps the practice moving quickly. What you and your group should experience is a peculiar

3 “10 Creative Techniques for You and Your Team.” *MiroBlog*. n.d. <https://miro.com/blog/creative-techniques/>

freedom arising from the imposition of limitations. By being responsible for only one mode of thinking, each participant can fully advocate for that point of view and can think deeply about that particular aspect of the solution. Thus, the group can be deeply creative, deeply logical, deeply optimistic, and deeply critical. This practice is meant to move entire groups past surface-level solutions. If you practice this exercise well, the challenges of implementing it are well worth the effort. It gives you the opportunity to vet ideas thoroughly while keeping many personality clashes at bay. If the participants stay in character, they can be accused only of acting in the best interests of their hat.

Your instructor may have your group members try different hats in different ideation exercises so you all can more fully develop each mindset.^[4] This exercise forces you out of your most comfortable modes of thinking. You and your classmates can recognize in each other skills that you may not have realized you possess.

The third ideation practice is quite simple. If stagnant thinking has begun to dominate an ongoing discussion, it can be helpful to inject an ideation framework. This is the “statement starters” method.^[5] Ask, “How might we _____?” or “What if we _____?” in order to open up new possibilities when you seem to have reached the limits of creativity. This method is more than simply asking “Why not?” because it seeks to uncover *how* a problem might be solved. For entrepreneurs, the simplest form of framing a problem in the form of a question can be eye opening. It assumes open possibilities, invites participation, and demands focus. Statement starters assume that, at least, there *might* be a solution to every problem. Ideation is about starting down new paths. This mode of thought applies to social problems as well as consumer pain points (discussed later). Creating a list of statement starters can help entrepreneurs examine different possibilities by simply adopting different points of view when asking questions. For example, the question, “How might we keep rivers clean?” is similar to the question, “How might we prevent animal waste runoff from entering our city’s waterways?” but the implications of each question are different for different stakeholders. Recall that stakeholders are individuals who have a vital interest in the business or organization. Statement starters almost always lead to a discussion of stakeholders and how they might be involved in finding solutions, offering support, and perhaps one day purchasing or contributing to dynamic, disruptive inventions or changes in social practice.

LINK TO LEARNING

Are you curious about ways to improve your ability to think creatively? Consider trying out some of the [creative thinking exercises \(https://openstax.org/l/52CreateThinkEx\)](https://openstax.org/l/52CreateThinkEx) provided at this site.

Matching Innovation Methods to Circumstances

Searching for innovation methods will often reveal many of the same, or similar, creativity exercises as we’ve just discussed. To go beyond ideation exercises, we will conclude with a foundation of thinking that can help when you are tackling all sorts of innovation problems. Simply put, **open innovation** involves searching for and finding solutions outside of the organizational structure. Open innovation is somewhat difficult to pin down. The educator and author Henry Chesbrough was one of the first to define it: “Open innovation is ‘the

4 “Six Thinking Hats.” *The de Bono Group*. n.d. http://www.debonogroup.com/six_thinking_hats.php

5 Michelle Ferrier. “Ideation.” *Media Innovation and Entrepreneurship*. n.d. <https://press.rebus.community/media-innovation-and-entrepreneurship/chapter/ideation-2/>

use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively.”^[6] In other words, firms built on a structure of open innovation look beyond their own research and development capabilities to solve problems. This outlook can guide all sorts of product and service development processes. Open innovation models also allow innovations to be shared widely so that they can seed other innovations outside the original firm or institution.

Open innovation takes an optimistic view of sharing information and ideas across a society connected by instantaneous communication networks. It is also a shift from the classic research and development model. In a sense, you allow others to solve problems in your business, startup, or social entrepreneurship project. In this reciprocal world, you are open to the reality that information is difficult to keep under wraps. You may seek patents for your intellectual property, particularly in fixed product or service practice form, but you should expect, or even encourage, the widespread circulation of key elements of your solutions. This makes sense: If, as an entrepreneur or an innovative corporation, you are going to look beyond your own ideation, research, and development capabilities for solutions, you must expect that others will look to your solutions for ideas to borrow.

The open innovation model is far easier to describe in idealistic terms than it is to put into practice without ethical consequences. Unfortunately, industrial and corporate espionage, theft of intellectual property, and lawsuits are commonplace. Nevertheless, inspiration in innovation can come from myriad sources when constant streams of information are available to anyone with a high-speed data connection. Open innovation is a simple but essential framework for future innovation and for managing, even possibly guiding, disruption in an industry as discussed previously (i.e., disruptive innovation). [Table 4.1](#) provides some examples of companies using disruptive technology.

Examples of Disruptive Technology

Company	Disruptive technology
Amazon	Speed based delivery Multiple delivery processes from drones to strategically located fulfillment centers Disruptive technology including processing the customer order before the customer has even finished the purchase, so that the product is already moving toward delivery
Uber and Lyft	Ride sharing versus taxi driving Apps and Beacon and Amp-color coded alert communication system disrupted the taxi system
Bitcoin	Digital currency not connected to a specific country or monetary standard Value based on market forces
Toyota E-Palette	Remote controlled driverless electric shuttle that brings the service to the customer rather than the customer going to the service

Table 4.1

Another element of the open innovation model is the connection between academic research and practical

6 Henry Chesbrough. “Everything You Need to Know about Open Innovation.” *Forbes*. March 21, 2011. <https://www.forbes.com/sites/henrychesbrough/2011/03/21/everything-you-need-to-know-about-open-innovation/#1861dd5275f4>

solutions. Reciprocal influence between academia, which often moves slowly, and leading corporate and entrepreneurial forces, which often focus too narrowly on short-term gains, could offer the balance this rapidly changing world needs. If you can manage to plug into the exchange of ideas between longstanding institutions and disruptive technological innovators, you may be positioned to effect positive change on society and to develop products that are received as useful and elegant, wildly new and creative, and essential to the human experience at the same time.

Staying on Top of Emerging Practices

Consider searching for ideation and innovation practice links using a web browser and comparing those results to what you can find in the academic literature via Google Scholar or other academic databases. To adopt a truly open innovation mindset, it is essential to leave yourself open to all sorts of influences, even if it demands time and much cognitive energy. The financial, social, and personal rewards may be great.

4.2

Creativity, Innovation, and Invention: How They Differ

Learning Objectives

By the end of this section, you will be able to:

- Distinguish between creativity, innovation, and invention
- Explain the difference between pioneering and incremental innovation, and which processes are best suited to each

One of the key requirements for entrepreneurial success is your ability to develop and offer something unique to the marketplace. Over time, entrepreneurship has become associated with **creativity**, the ability to develop something original, particularly an idea or a representation of an idea. Innovation requires creativity, but innovation is more specifically the application of creativity. Innovation is the manifestation of creativity into a usable product or service. In the entrepreneurial context, **innovation** is any new idea, process, or product, or a change to an existing product or process that adds value to that existing product or service.

How is an invention different from an innovation? All inventions contain innovations, but not every innovation rises to the level of a unique invention. For our purposes, an **invention** is a truly novel product, service, or process. It will be based on previous ideas and products, but it is such a leap that it is not considered an addition to or a variant of an existing product but something unique. [Table 4.2](#) highlights the differences between these three concepts.

Creativity, Innovation, and Invention	
Concept	Description
Creativity	ability to develop something original, particularly an idea or a representation of an idea, with an element of aesthetic flair
Innovation	change that adds value to an existing product or service

Table 4.2

Creativity, Innovation, and Invention

Concept	Description
Invention	truly novel product, service, or process that, though based on ideas and products that have come before, represents a leap, a creation truly novel and different

Table 4.2

One way we can consider these three concepts is to relate them to design thinking. **Design thinking** is a method to focus the design and development decisions of a product on the needs of the customer, typically involving an empathy-driven process to define complex problems and create solutions that address those problems. Complexity is key to design thinking. Straightforward problems that can be solved with enough money and force do not require much design thinking. Creative design thinking and planning are about finding new solutions for problems with several tricky variables in play. Designing products for human beings, who are complex and sometimes unpredictable, requires design thinking.

Airbnb has become a widely used service all over the world. That has not always been the case, however. In 2009, the company was near failure. The founders were struggling to find a reason for the lack of interest in their properties until they realized that their listings needed professional, high-quality photographs rather than simple cell-phone photos. Using a design thinking approach, the founders traveled to the properties with a rented camera to take some new photographs. As a result of this experiment, weekly revenue doubled. This approach could not be sustainable in the long term, but it generated the outcome the founders needed to better understand the problem. This creative approach to solving a complex problem proved to be a major turning point for the company.^[7]

People who are adept at design thinking are creative, innovative, and inventive as they strive to tackle different types of problems. Consider Divya Nag, a millennial biotech and medical device innovation leader, who launched a business after she discovered a creative way to prolong the life of human cells in Petri dishes. Nag's stem-cell research background and her entrepreneurial experience with her medical investment firm made her a popular choice when Apple hired her to run two programs dedicated to developing health-related apps, a position she reached before turning twenty-four years old.^[8]

Creativity, innovation, inventiveness, and entrepreneurship can be tightly linked. It is possible for one person to model all these traits to some degree. Additionally, you can develop your creativity skills, sense of innovation, and inventiveness in a variety of ways. In this section, we'll discuss each of the key terms and how they relate to the entrepreneurial spirit.

Creativity

Entrepreneurial creativity and artistic creativity are not so different. You can find inspiration in your favorite books, songs, and paintings, and you also can take inspiration from existing products and services. You can find creative inspiration in nature, in conversations with other creative minds, and through formal ideation exercises, for example, brainstorming. **Ideation** is the purposeful process of opening up your mind to new trains of thought that branch out in all directions from a stated purpose or problem. **Brainstorming**, the

7 "How Design Thinking Transformed Airbnb from Failing Startup to Billion Dollar Business." *First Round Review*. n.d. <https://firstround.com/review/How-design-thinking-transformed-Airbnb-from-failing-startup-to-billion-dollar-business/>

8 "Divya Nag, 26." *Fortune*. n.d. <http://fortune.com/40-under-40/2017/divya-nag-27/>

generation of ideas in an environment free of judgment or dissension with the goal of creating solutions, is just one of dozens of methods for coming up with new ideas.^[9]

You can benefit from setting aside time for ideation. Reserving time to let your mind roam freely as you think about an issue or problem from multiple directions is a necessary component of the process. Ideation takes time and a deliberate effort to move beyond your habitual thought patterns. If you consciously set aside time for creativity, you will broaden your mental horizons and allow yourself to change and grow.^[10]

Entrepreneurs work with two types of thinking. **Linear thinking**—sometimes called vertical thinking—involves a logical, step-by-step process. In contrast, creative thinking is more often **lateral thinking**, free and open thinking in which established patterns of logical thought are purposefully ignored or even challenged. You can ignore logic; anything becomes possible. Linear thinking is crucial in turning your idea into a business. Lateral thinking will allow you to use your creativity to solve problems that arise. [Figure 4.5](#) summarizes linear and lateral thinking.

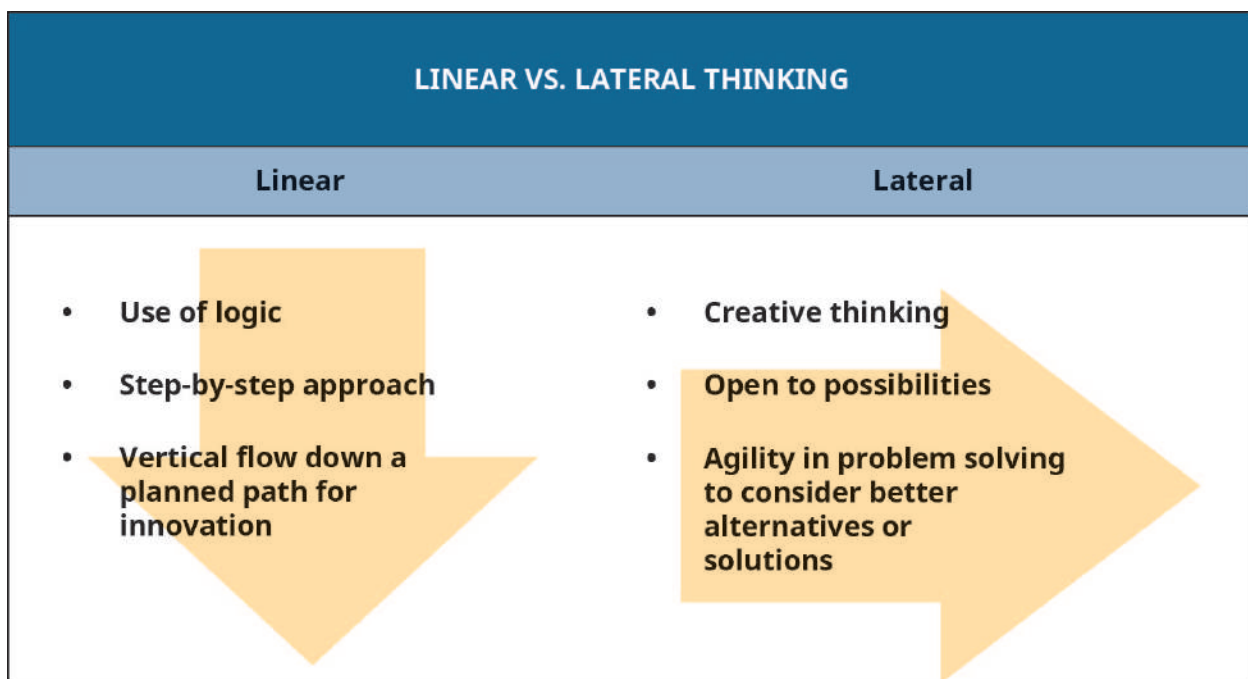


Figure 4.5 Entrepreneurs can be most effective if they use both linear and lateral thinking. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

It is certainly possible for you to be an entrepreneur and focus on linear thinking. Many viable business ventures flow logically and directly from existing products and services. However, for various reasons, creativity and lateral thinking are emphasized in many contemporary contexts in the study of entrepreneurship. Some reasons for this are increased global competition, the speed of technological change, and the complexity of trade and communication systems.^[11] These factors help explain not just why creativity is emphasized in entrepreneurial circles but also why creativity should be emphasized. Product developers of

9 Rikke Dam and Teo Siang. "Introduction to the Essential Ideation Techniques Which Are the Heart of Design Thinking." *Interaction Design Foundation*. April 2019. <https://www.interaction-design.org/literature/article/introduction-to-the-essential-ideation-techniques-which-are-the-heart-of-design-thinking>

10 Dawn Kelly and Terry L. Amburgey. "Organizational Inertia and Momentum: A Dynamic Model of Strategic Change." *Academy of Management Journal* 34, no. 3 (1991): 591–612.

11 Ian Fillis and Ruth Rentschler. "The Role of Creativity in Entrepreneurship." *Journal of Enterprising Culture* 18, no. 1 (2010): 49–81.

the twenty-first century are expected to do more than simply push products and innovations a step further down a planned path. Newer generations of entrepreneurs are expected to be path breakers in new products, services, and processes.

Examples of creativity are all around us. They come in the forms of fine art and writing, or in graffiti and viral videos, or in new products, services, ideas, and processes. In practice, creativity is incredibly broad. It is all around us whenever or wherever people strive to solve a problem, large or small, practical or impractical.

Innovation

We previously defined innovation as a change that adds value to an existing product or service. According to the management thinker and author Peter Drucker, the key point about innovation is that it is a response to both changes within markets and changes from outside markets. For Drucker, classical entrepreneurship psychology highlights the purposeful nature of innovation.^[12] Business firms and other organizations can plan to innovate by applying either lateral or linear thinking methods, or both. In other words, not all innovation is purely creative. If a firm wishes to innovate a current product, what will likely matter more to that firm is the success of the innovation rather than the level of creativity involved. Drucker summarized the sources of innovation into seven categories, as outlined in [Table 4.3](#). Firms and individuals can innovate by seeking out and developing changes within markets or by focusing on and cultivating creativity. Firms and individuals should be on the lookout for opportunities to innovate.^[13]

Drucker's Seven Sources of Innovation^[14]

Source	Description
The unexpected	Looking for new opportunities in the market; unexpected product performance; unexpected new products as examples
The incongruity	Discrepancies between what you think should be and what is reality
Process need	Weaknesses in the organization, product, or service
Changes in industry/market	New regulations; new technologies
Demographics	Understanding needs and wants of target markets
Changes in perceptions	Changes in perceptions of life events and values
New knowledge	New technologies; advancements in thinking; new research

Table 4.3

One innovation that demonstrates several of Drucker's sources is the use of cashier kiosks in fast-food

12 P. F. Drucker. *Innovation and Entrepreneurship: Practices and Principles*. New York: Harper & Row Publishers, 1986.

13 P. F. Drucker. *Innovation and Entrepreneurship: Practices and Principles*. (New York: Harper & Row Publishers, 1986), 35.

14 P. F. Drucker. *Innovation and Entrepreneurship: Practices and Principles*. New York: Harper & Row Publishers, 1986.

restaurants. McDonald's was one of the first to launch these self-serve kiosks. Historically, the company has focused on operational efficiencies (doing more/better with less). In response to changes in the market, changes in demographics, and process need, McDonald's incorporated self-serve cashier stations into their stores. These kiosks address the need of younger generations to interact more with technology and gives customers faster service in most cases.^[15]

Another leading expert on innovation, Tony Ulwick, focuses on understanding how the customer will judge or evaluate the quality and value of the product. The product development process should be based on the metrics that customers use to judge products, so that innovation can address those metrics and develop the best product for meeting customers' needs when it hits the market. This process is very similar to Drucker's contention that innovation comes as a response to changes within and outside of the market. Ulwick insists that focusing on the customer should begin early in the development process.^[16]

Disruptive innovation is a process that significantly affects the market by making a product or service more affordable and/or accessible, so that it will be available to a much larger audience. Clay Christensen of Harvard University coined this term in the 1990s to emphasize the process nature of innovation. For Christensen, the innovative component is not the actual product or service, but the process that makes that product more available to a larger population of users. He has since published a good deal on the topic of disruptive innovation, focusing on small players in a market. Christensen theorizes that a disruptive innovation from a smaller company can threaten an existing larger business by offering the market new and improved solutions. The smaller company causes the disruption when it captures some of the market share from the larger organization.^[17],^[18] One example of a disruptive innovation is Uber and its impact on the taxicab industry. Uber's innovative service, which targets customers who might otherwise take a cab, has shaped the industry as whole by offering an alternative that some deem superior to the typical cab ride.

One key to innovation within a given market space is to look for pain points, particularly in existing products that fail to work as well as users expect them to. A **pain point** is a problem that people have with a product or service that might be addressed by creating a modified version that solves the problem more efficiently.^[19] For example, you might be interested in whether a local retail store carries a specific item without actually going there to check. Most retailers now have a feature on their websites that allows you to determine whether the product (and often how many units) is available at a specific store. This eliminates the need to go to the location only to find that they are out of your favorite product. Once a pain point is identified in a firm's own product or in a competitor's product, the firm can bring creativity to bear in finding and testing solutions that sidestep or eliminate the pain, making the innovation marketable. This is one example of an **incremental innovation**, an innovation that modifies an existing product or service.^[20]

In contrast, a **pioneering innovation** is one based on a new technology, a new advancement in the field, and/or an advancement in a related field that leads to the development of a new product.^[21] Firms offering similar

15 Blake Morgan. "5 Fresh Examples of Customer Service Innovation." *Forbes*. July 17, 2017. <https://www.forbes.com/sites/blakemorgan/2017/07/17/5-fresh-examples-of-customer-experience-innovation/#3ae5a46e5c18>

16 Tony Ulwick. "Reinventing Innovation for 25 Years." *Strategyn*. n.d. https://strategyn.com/tony-ulwick/?network=g&matchtype=p&keyword=tony%20ulwick&creative=268244402567&device=c&devicemodel=&placement=&position=1t1&campaignid=1394486829&BEIPWHKfd6R6mnW4XCHuhXbX_JhUof76IdXh6joIzIWRoCqJAQAvD_BwE

17 Chris Larson. "Disruptive Innovation Theory: What It Is & 4 Key Concepts." *Harvard Business School*. November 15, 2016. <https://online.hbs.edu/blog/post/4-keys-to-understanding-clayton-christensens-theory-of-disruptive-innovation>

18 Rosamond Hutt. "What Is Disruptive Innovation?" *World Economic Forum*. June 25, 2016. <https://www.weforum.org/agenda/2016/06/what-is-disruptive-innovation/>

19 Lloyd Waldo. "What's a Pain Point? A Guide for Startups." *StartupYard Seed Accelerator*. December 1, 2016. <https://startupyard.com/whats-pain-point/>

20 Abdul Ali, Manohar U. Kalwani, and Dan Kovenock. "Selecting Product Development Projects: Pioneering versus Incremental Innovation Strategies." *Management Science* 39, no. 3 (1993): 255–274.

products and services can undertake pioneering innovations, but pioneering the new product requires opening up new market space and taking major risks.

ENTREPRENEUR IN ACTION

Pioneering Innovation in the Personal Care Industry

In his ninth-grade biology class, Benjamin Stern came up with an idea to change the personal care industry. He envisioned personal cleaning products (soap, shampoo, etc.) that would contain no harsh chemicals or sulfates, and would also produce no plastic waste from empty bottles. He developed Nohbo Drops, single-use personal cleansing products with water-soluble packaging. Stern was able to borrow money from family and friends, and use some of his college fund to hire a chemist to develop the product. He then appeared on *Shark Tank* with his innovation in 2016 and secured the backing of investor Mark Cuban. Stern assembled a research team to perfect the product and obtained a patent ([Figure 4.6](#)). The products are now available via the company website.

STERN et al.		(43) Pub. Date:	Jan. 19, 2017
(54)	HYGIENE PRODUCT TABLET AND METHODS OF FORMING SAME	<i>A61Q 19/10</i>	(2006.01)
		<i>A61K 8/73</i>	(2006.01)
		<i>A61Q 9/02</i>	(2006.01)
(71)	Applicant: Nohbo, LLC , Reston, VA (US)	<i>A61Q 5/02</i>	(2006.01)
		<i>A61K 8/60</i>	(2006.01)
(72)	Inventors: Benjamin Gabriel STERN , Reston, VA (US); Robert Hutton Ray , Union, IL (US)	<i>A61K 8/97</i>	(2006.01)
		(52) U.S. Cl.	
		CPC	<i>A61K 8/0216</i> (2013.01); <i>A61K 8/60</i> (2013.01); <i>A61K 8/466</i> (2013.01); <i>A61K 8/345</i> (2013.01); <i>A61K 8/97</i> (2013.01); <i>A61K 8/732</i> (2013.01); <i>A61Q 9/02</i> (2013.01); <i>A61Q 5/02</i> (2013.01); <i>A61Q 19/10</i> (2013.01); <i>A61K 2800/592</i> (2013.01); <i>A61K 2800/49</i> (2013.01)
(21)	Appl. No.: 15/211,788		
(22)	Filed: Jul. 15, 2016		
	Related U.S. Application Data		
(60)	Provisional application No. 62/192,679, filed on Jul. 15, 2015.	(57)	ABSTRACT
	Publication Classification		A hygiene product tablet an method of forming the same, the tablet including: an active agent; a binder; a non-aqueous wetting agent; and a binder enhancer, which are compressed in a mold at a pressure ranging from about 100 psi to about 180 psi. The tablet may include a core and a shell surrounding the core, the shell having a higher amount of cross-linking than the core.
(51)	Int. Cl.		
	<i>A61K 8/02</i>		(2006.01)
	<i>A61K 8/46</i>		(2006.01)
	<i>A61K 8/34</i>		(2006.01)

Figure 4.6 This is part of the patent application for Nohbo drops. (credit: modification of "US Patent US20170014313A1" by Nohbo LLC/Google Patents, Public Domain)

Is a pioneering innovation an invention? A firm makes a pioneering innovation when it creates a product or service arising from what it has done before. Pokémon GO is a great example of pioneering innovation. Nintendo was struggling to keep pace with other gaming-related companies. The company, in keeping with its core business of video games, came up with a new direction for the gaming industry. Pokémon GO is known worldwide and is one of the most successful mobile games launched.^[22] It takes creativity to explore a new direction, but not every pioneering innovation creates a distinctly new product or capability for consumers and

21 Abdul Ali. "Pioneering versus Incremental Innovation: Review and Research Propositions." *Journal of Product Innovation Management* 11, no. 1 (1994): 46–61.

clients.

Entrepreneurs in the process of developing an innovation usually examine the current products and services their firm offers, investigate new technologies and techniques being introduced in the marketplace or in related marketplaces, watch research and development in universities and in other companies, and pursue new developments that are likely to fit one of two conditions: an innovation that likely fits an existing market better than other products or services being offered; or an innovation that fits a market that so far has been underserved.

An example of an incremental innovation is the trash receptacle you find at fast-food restaurants. For many years, trash cans in fast-food locations were placed in boxes behind swinging doors. The trash cans did one job well: They hid the garbage from sight. But they created other problems: Often, the swinging doors would get ketchup and other waste on them, surely a pain point. Newer trash receptacles in fast-food restaurants have open fronts or open tops that enable people to dispose of their trash more neatly. The downside for restaurants is that users can see and possibly smell the food waste, but if the restaurants change the trash bags frequently, as is a good practice anyway, this innovation works relatively well. You might not think twice about this everyday example of an innovation when you eat at a fast-food restaurant, but even small improvements can matter a lot, particularly if the market they serve is vast.

Invention

An invention is a leap in capability beyond innovation. Some inventions combine several innovations into something new. Invention certainly requires creativity, but it goes beyond coming up with new ideas, combinations of thought, or variations on a theme. Inventors build. Developing something users and customers view as an invention could be important to some entrepreneurs, because when a new product or service is viewed as unique, it can create new markets. True inventiveness is often recognized in the marketplace, and it can help build a valuable reputation and help establish market position if the company can build a future-oriented corporate narrative around the invention.^[23]

Besides establishing a new market position, a true invention can have a social and cultural impact. At the social level, a new invention can influence the ways institutions work. For example, the invention of desktop computing put accounting and word processing into the hands of nearly every office worker. The ripple effects spread to the school systems that educate and train the corporate workforce. Not long after the spread of desktop computing, workers were expected to draft reports, run financial projections, and make appealing presentations. Specializations or aspects of specialized jobs—such as typist, bookkeeper, corporate copywriter—became necessary for almost everyone headed for corporate work. Colleges and eventually high schools saw software training as essential for students of almost all skill levels. These additional capabilities added profitability and efficiencies, but they also have increased job requirements for the average professional.

Some of the most successful inventions contain a mix of familiarity and innovation that is difficult to achieve. With this mix, the rate of adoption can be accelerated because of the familiarity with the concept or certain aspects of the product or service. As an example, the “videophone” was a concept that began to be explored as early as the late 1800s. AT&T began extensive work on videophones during the 1920s. However, the invention was not adopted because of a lack of familiarity with the idea of seeing someone on a screen and

22 JV Chamary. “Why ‘Pokémon GO’ Is the World’s Most Important Game.” *Forbes*. February 10, 2018. <https://www.forbes.com/sites/jvchamary/2018/02/10/pokemon-go-science-health-benefits/#2b6f07fd3ab0>

23 Morten Thanning Vendelø. “Narrating Corporate Reputation: Becoming Legitimate through Storytelling.” *International Studies of Management & Organization* 28, no. 3 (1998): 120–137.

communicating back and forth. Other factors included societal norms, size of the machine, and cost. It wasn't until the early 2000s that the invention started to take hold in the marketplace.^[24] The concept of a black box is that activities are performed in a somewhat mysterious and ambiguous manner, with a serendipitous set of actions connecting that result in a surprisingly beneficial manner. An example is Febreze, a chemical combination that binds molecules to eliminate odors. From a black box perspective, the chemical engineers did not intend to create this product, but as they were working on creating another product, someone noticed that the product they were working on removed odors, thus inadvertently creating a successful new product marketed as Febreze.

WHAT CAN YOU DO?

Did Henry Ford Invent the Assembly Line?

Very few products or procedures are actually brand-new ideas. Most new products are alterations or new applications of existing products, with some type of twist in design, function, portability, or use. Henry Ford is usually credited with inventing the moving assembly line [Figure 4.7\(a\)](#) in 1913. However, some 800 years before Henry Ford, wooden ships were mass produced in the northern Italian city of Venice in a system that anticipated the modern assembly line.

Various components (ropes, sails, and so on) were prefabricated in different parts of the Venetian Arsenal, a huge, complex construction site along one of Venice's canals. The parts were then delivered to specific assembly points [Figure 4.7\(b\)](#). After each stage of construction, the ships were floated down the canal to the next assembly area, where the next sets of workers and parts were waiting. Moving the ships down the waterway and assembling them in stages increased speed and efficiency to the point that long before the Industrial Revolution, the Arsenal could produce one fully functional and completely equipped ship *per day*. The system was so successful that it was used from the thirteenth century to about 1800.

Henry Ford did not invent anything new—he only applied the 800-year-old process of building wooden ships by hand along a moving waterway to making metal cars by hand on a moving conveyor ([Figure 4.7](#)).

24 Thomas J. Fitzgerald. "For the Deaf: Communication without the Wait." *The New York Times*. December 18, 2003. <https://www.nytimes.com/2003/12/18/technology/for-the-deaf-communication-without-the-wait.html>

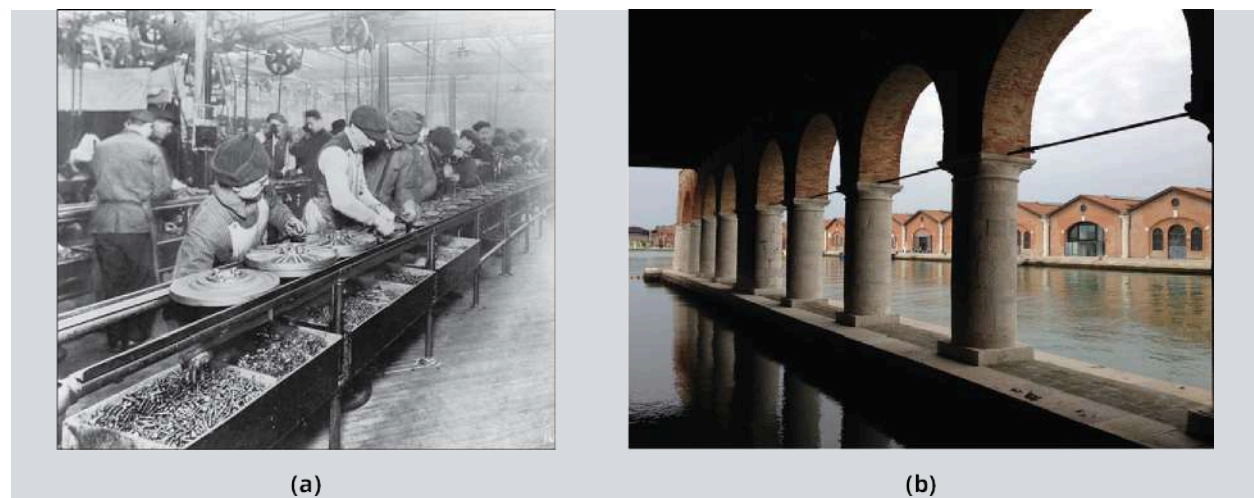


Figure 4.7 (a) Workers assemble car parts on an early Ford factory assembly line. (b) The Venetian Arsenal was an early “assembly line” where workers could build a complete ship in a single day. (credit (a): modification of “Ford assembly line – 1913” by “Hohum”/Wikimedia Commons, Public Domain; credit (b): modification of “venice-arsenal-italy” by “irenetriches1”/Pixabay, CC0)

Opportunities to bring new products and processes to market are in front of us every day. The key is having the ability to recognize them and implement them. Likewise, the people you need to help you be successful may be right in front of you on a regular basis. The key is having the ability to recognize who they are and making connections to them. Just as those ships and cars moved down an assembly line until they were ready to be put into service, start thinking about moving down the “who I know” line so that you will eventually have a successful business in place.

The process of invention is difficult to codify because not all inventions or inventors follow the same path. Often the path can take multiple directions, involve many people besides the inventor, and encompass many restarts. Inventors and their teams develop their own processes along with their own products, and the field in which an inventor works will greatly influence the modes and pace of invention. Elon Musk is famous for founding four different billion-dollar companies. The development processes for PayPal, Solar City, SpaceX, and Tesla differed widely; however, Musk does outline a six-step decision-making process (Figure 4.8):

1. Ask a question.
2. Gather as much evidence as possible about it.
3. Develop axioms based on the evidence and try to assign a probability of truth to each one.
4. Draw a conclusion in order to determine: Are these axioms correct, are they relevant, do they necessarily lead to this conclusion, and with what probability?
5. Attempt to disprove the conclusion. Seek refutation from others to further help break your conclusion.
6. If nobody can invalidate your conclusion, then you’re *probably* right, but you’re not *certainly* right.

In other words, the constant underlying Musk’s decision process is the scientific method.^[25] The **scientific method**, most often associated with the natural sciences, outlines the process of discovering an answer to a question or a problem. “The scientific method is a logical organization of steps that scientists use to make deductions about the world around us.”^[26] The steps in the scientific method line up quite nicely with Musk’s

25 Abby Jackson. “Elon Musk Uses This 6-Step Process to Make Decisions.” *Business Insider*. November 16, 2017. <https://www.inc.com/business-insider/how-elon-musk-makes-decisions-rolling-stone.html>

decision-making process. Applying the scientific method to invention and innovation makes sense. The scientific method involves becoming aware of a problem, collecting data about it by observing and experimenting, and coming up with suggestions on how to solve it.

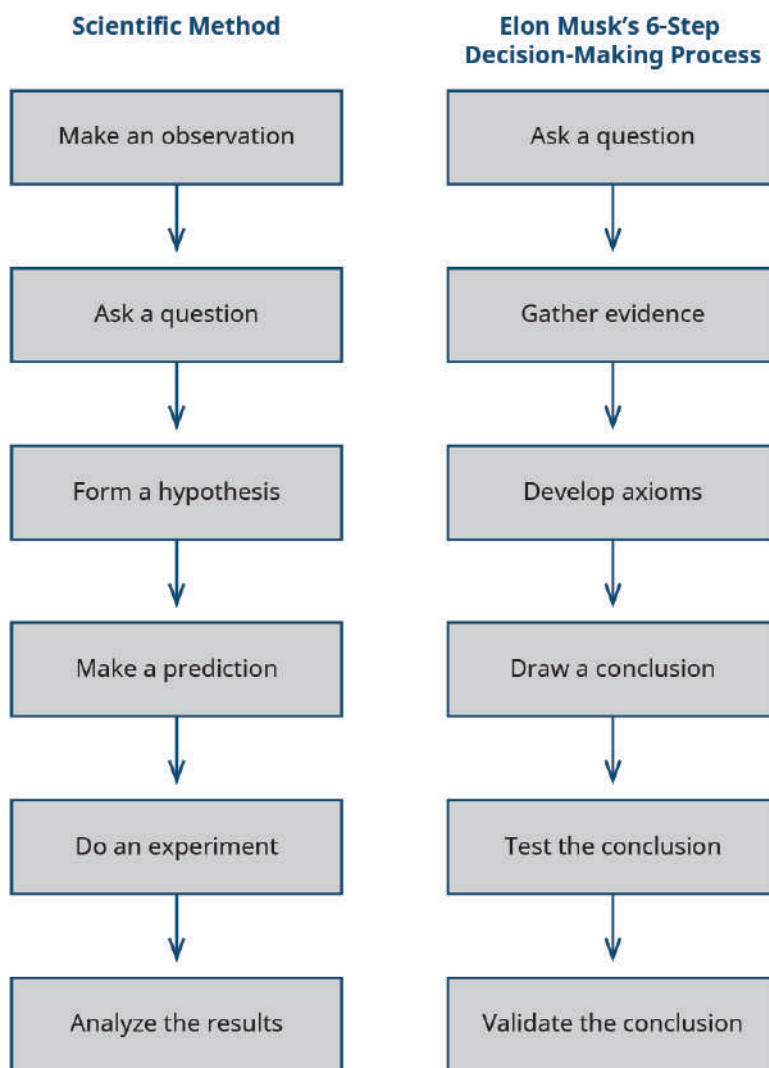


Figure 4.8 Elon Musk's six-step decision making process follows a sequence of steps similar to the scientific method. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Economists argue that processes of invention can be explained by economic forces. But this hasn't always been the case. Prior to 1940, economic theory focused very little on inventions. After World War II, much of the global economy in the developed world needed to be rebuilt. New technologies were developing rapidly, and research and development investment increased. Inventors and economists alike became aware of consumer demand and realized that demand can influence which inventions take off at a given time.^[27] However, inventors are always up against an adoption curve.^[28]

The Rogers Adoption Curve was popularized through the research and publications of the author and scientist

26 Joan Whetzel. "Formula for Using the Scientific Method." *Owlcation*. February 11, 2017. <https://owlcation.com/academia/FormulaForUsingScientificMethod>

27 N. Rosenberg. "Science, Invention and Economic Growth." *The Economic Journal* 84, no. 333 (1974): 90-108.

28 Everett M. Rogers. *Diffusion of Innovations*, 5th ed. New York: Simon and Schuster, 2010.

Everett Rogers.^[29] He first used it to describe how agricultural innovations diffused (or failed to) in a society. It was later applied to all inventions and innovations. This curve illustrates diffusion of an innovation and when certain people will adopt it. First is the question of who adopts inventions and innovations in society: The main groups are innovators, early adopters, early and late-majority adopters, and “laggards” (Rogers’s own term).^[30] The innovators are the ones willing to take a risk on a new product, the consumers who want to try it first. The early adopters are consumers who will adopt new inventions with little to no information. Majority adopters will adopt products after being accepted by the majority. And finally, laggards are often not willing to readily adopt change and are the hardest to convince to try a new invention.^[31]

Rogers’s second way of looking at the concept is from the point of view of the invention itself. A given population partially or completely adopts an invention or rejects it. If an invention is targeted at the wrong population or the wrong population segment, this can dramatically inhibit its chances of being adopted widely. The most critical point of adoption often occurs at the end of the early adoption phase, before the early majority steps in and truly confirms (or not) the diffusion of an invention. This is called the **diffusion chasm** (though this process is usually called the *diffusion of innovations*, for our purposes, it applies quite well to new inventions as we define them here).

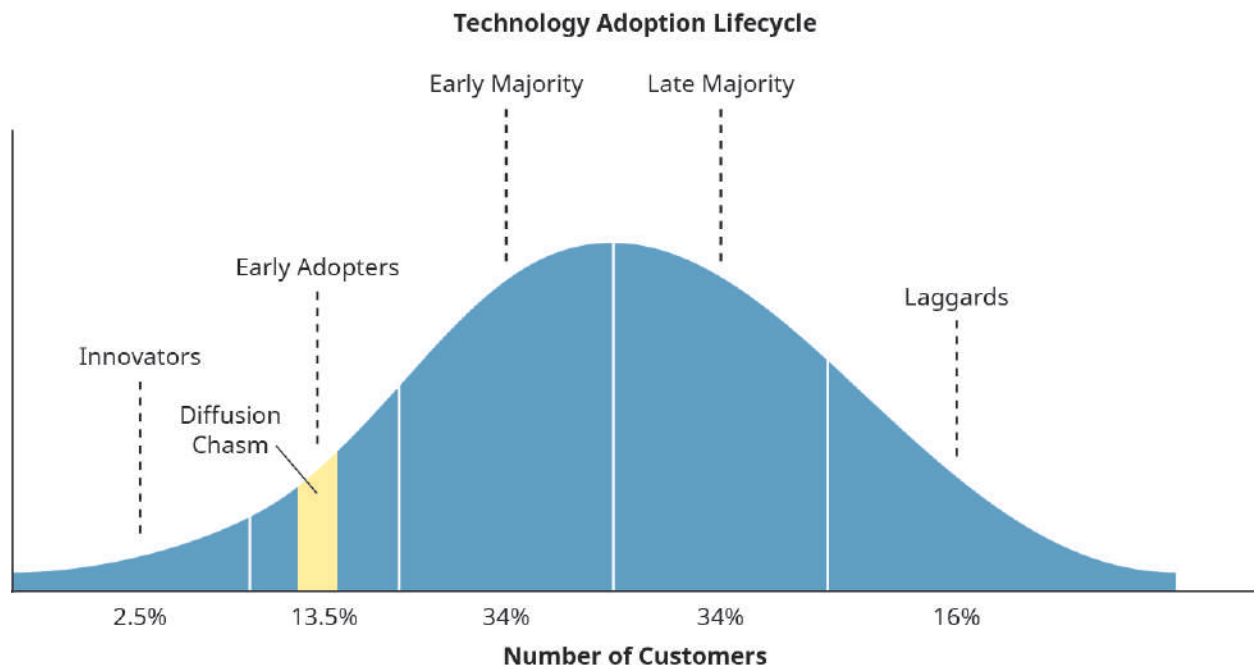


Figure 4.9 The diffusion curve shows the adoption lifecycle according to the research of Everett Rogers. The diffusion chasm occurs during early adoption. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The diffusion curve depicts a social process in which the value of an invention is perceived (or not) to be worth the cost (Figure 4.9). Early adopters generally pay more than those who wait, but if the invention gives them a perceived practical, social, or cultural advantage, members of the population, the popularity of the invention itself, and marketing can all drive the invention over the diffusion chasm. Once the early majority adopts an

29 John-Pierre Maeli. “The Rogers Adoption Curve & How You Spread New Ideas Throughout Culture.” *The Political Informer*. May 6, 2016. <https://medium.com/the-political-informer/the-rogers-adoption-curve-how-you-spread-new-ideas-throughout-culture-d848462fcd24>

30 Everett M. Rogers. *Diffusion of Innovations*, 5th ed. New York: Simon and Schuster, 2010.

31 Wayne W. LaMorte. “Diffusion of Innovation Theory.” September 9, 2019. <http://sphweb.bumc.bu.edu/otlt/MPH-Modules/SB/BehavioralChangeTheories/BehavioralChangeTheories4.html>

innovation (in very large numbers), we can expect the rest of the majority to adopt it. By the time the late majority and the laggards adopt an innovation, the novelty has worn off, but the practical benefits of the innovation can still be felt.

Inventors are constantly trying to cross the diffusion chasm, often with many products at a time. Crossing the diffusion chasm is a nearly constant concern for business-focused or outcomes-focused inventors. Inventors put many of their resources into an invention during the innovation and early adoption stages. Inventions may not turn a profit for investors or the inventors themselves until they are well into the early majority stage of adoption. Some inventors are pleased to work toward general discovery, but most in today's social and cultural context are working to develop products and services for markets.

One shortcoming of the diffusion of innovations model is that it treats inventions and innovations as though they are finished and complete, though many are not. Not all inventions are finished products ready for market. Iterative development is more common, particularly in fields with high levels of complexity and in service-oriented ventures. In the **iterative development** process, inventors and innovators continuously engage with potential customers in order to develop their products and their consumer bases at the same time. This model of business learning, also known as the science of customer development, is essential.^[32] Business learning involves testing product-market fit and making changes to an innovation or invention many times over until either investment funding runs out or the product succeeds. Perhaps the most accurate way to summarize this process is to note that many inventions are hit-or-miss prospects that get only a few chances to cross the diffusion chasm. When innovators follow the build-measure-learn model (discussed in detail in [Launch for Growth to Success](#)), they try to work their way across the diffusion chasm rather than making a leap of faith.

WORK IT OUT

Razors

The safety razor was an innovation over the straight razor. Safety razor blades are small enough to fit inside a capsule, and the location and type of handle was altered to suit the new orientation of handle to blade ([Figure 4.10](#)). Most contemporary razors are themselves innovations on the safety razor, whether they have two, three, four, or more blades. The method of changing razor blades has evolved with each innovation on the safety razor, but the designs are functionally similar.

The electric razor is a related invention. It still uses blades to shave hair off the face or body, but the blades are hidden beneath a foil or foils. Hairs poke through the foils when the razor is pressed against the skin, and blades moving in various directions cut the hairs. Although electric razors use blades as do mechanical razors, the new design and the added technology qualified the electric razor as an invention that offered something new in the shaving industry when Jacob Schick won the patent for a shaving machine in 1930.^[33] Still other innovations in the shaving genre include gender-specific razors, beard trimmers, and, more recently, online clubs such as Dollar Shave Club and Harry's Shave Club.

32 Eric Ries. *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*. Largo, Maryland: Crown Books, 2011.

33 "Jacob Schick Invents the Electric Razor." *Connecticut History*. May 13, 2017. <https://connecticuthistory.org/jacob-schick-invents-the-electric-razor/>

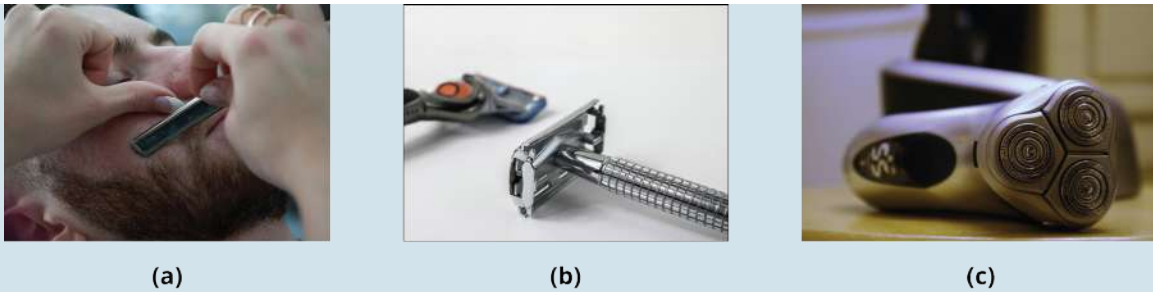


Figure 4.10 (a) The straight razor is still in use, but there are newer innovations that are more popular. (b) The safety razor is an innovation over the straight razor. (c) The electric razor is an innovation related to the safety razor. (credit (a): modification of “barber-beard-razor-shaving” by “jackmac34”/Pixabay, CC0; credit (b): modification of “Safety Razor vs Cartridge Razor” by “Tools of Men”/Creative Commons, CC BY 2.0; credit (c): modification of “Philips 8290 shaver unboxing” by “renaissancechambara”/Creative Commons, CC BY 2.0)

Think about the conceptual difference between innovation and invention. Is the safety razor a pioneering innovation or an incremental one? What makes the electric razor an invention, as we define it here? What makes it stand out as a leap from previous types of razors? Do you think the electric razor is a “sure thing”? Why or why not? Consider the availability of electricity at the time the first electric razors were being made. Why do you think the electric razor made it over the diffusion chasm between early adopters and early majority adopters? Do you think the electric razor was invented iteratively with small changes to the same product in response to customer preferences? Or did it develop in a series of black box inventions, with each one either diffusing or not?

4.3 Developing Ideas, Innovations, and Inventions

Learning Objectives

By the end of this section, you will be able to:

- Describe and apply the five stages of creativity
- Discuss innovation as a system for problem solving and much more
- Outline the sequence of steps in developing an invention

The previous section defined creativity, innovation, and invention, and provided examples. You might think of creativity as raw; innovation as transforming creativity into a functional purpose, often meant to eradicate a pain point or to fulfill a need; and invention as a creation that leaves a lasting impact. In this section, you will learn about processes designed to help you apply knowledge from the previous section.

The Creative Process: The Five Stages of Creativity

Raw creativity and an affinity for lateral thinking may be innate, but creative people must refine these skills in order to become masters in their respective fields. They practice in order to apply their skills readily and consistently, and to integrate them with other thought processes and emotions. Anyone can improve in

creative efforts with practice. For our purposes, practice is a model for applied creativity that is derived from an entrepreneurial approach (Figure 4.11).^[34] It requires:

1. Preparation
2. Incubation
3. Insight
4. Evaluation
5. Elaboration



Figure 4.11 These are the five stages of creativity, according to Graham Wallas in *The Art of Thought*.^[35] (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Preparation

Preparation involves investigating a chosen field of interest, opening your mind, and becoming immersed in materials, mindset, and meaning. If you have ever tried to produce something creative without first absorbing relevant information and observing skilled practitioners at work, then you understand how difficult it is. This base of knowledge and experience mixed with an ability to integrate new thoughts and practices can help you sift through the ideas quicker. However, relying too heavily on prior knowledge can restrict the creative process. When you immerse yourself in a creative practice, you make use of the products or the materials of others' creativity. For example, a video-game designer plays different types of video games on different consoles, computers, and online in networks. She or he may play alone, with friends in collaboration, or in competition. Consuming the products in a field gives you a sense of what is possible and indicates boundaries that you may attempt to push with your own creative work. Preparation broadens your mind and lets you study the products, practice, and culture in a field. It is also a time for goal setting. Whether your chosen field is directly related to art and design, such as publishing, or involves human-centric design, which includes all sorts of software and product design efforts, you need a period of open-minded reception to ideas. Repetitive practice is also part of the preparation stage, so that you can understand the current field of production and become aware of best practices, whether or not you are currently capable of matching them. During the preparation stage, you can begin to see how other creative people put meaning into their products, and you can establish benchmarks against which to measure your own creative work.

Incubation

Incubation refers to giving yourself, and your subconscious mind in particular, time to incorporate what you learned and practiced in the preparation stage. Incubation involves the absence of practice. It may look to an outsider as though you are at rest, but your mind is at work. A change of environment is key to incubating ideas.^[36] A new environment allows you to receive stimuli other than those directly associated with the creative problem you are working on. It could be as simple as taking a walk or going to a new coffee shop to allow your

34 Aleza D'Agostino. "5 Stages of the Creative Process with James Taylor." *CreativeLive*. December 28, 2015. <https://www.creativelive.com/blog/5-stages-of-the-creative-process-with-james-taylor/>

35 Eugene Sadler-Smith. "Wallas' Four-Stage Model of the Creative Process: More Than Meets the Eye?" *Creativity Research Journal* 27, no. 4 (2015): 342–352.

36 Eugene Sadler-Smith. "Wallas' Four-Stage Model of the Creative Process: More Than Meets the Eye?" *Creativity Research Journal* 27, no. 4 (2015): 342–352.

mind to wander and take in the information you gathered in the previous stage. Mozart stated, “When I am, as it were, completely myself, entirely alone, and of good cheer—say, traveling in a carriage, or walking after a good meal, or during the night when I cannot sleep; it is on such occasions that my ideas flow best and most abundantly.”^[37] Incubation allows your mind to integrate your creative problem with your stored memories and with other thoughts or emotions you might have. This simply is not possible to do when you are consciously fixated on the creative problem and related tasks and practice.

Incubation can take a short or a long time, and you can perform other activities while allowing this process to take place. One theory about incubation is that it takes language out of the thought process. If you are not working to apply words to your creative problems and interests, you can free your mind to make associations that go deeper, so to speak, than language.^[38] Patiently waiting for incubation to work is quite difficult. Many creative and innovative people develop hobbies involving physical activity to keep their minds busy while they allow ideas to incubate.

Insight

Insight or “illumination” is a term for the “aha!” moment—when the solution to a creative problem suddenly becomes readily accessible to your conscious mind. The “aha!” moment has been observed in literature, in history, and in cognitive studies of creativity.^[39] Insights may come all at once or in increments. They are not easily understood because, by their very nature, they are difficult to isolate in research and experimental settings. For the creative entrepreneur, however, insights are a delight. An insight is the fleeting time when your preparation, practice, and period of incubation coalesce into a stroke of genius. Whether the illumination is the solution to a seemingly impossible problem or the creation of a particularly clever melody or turn of phrase, creative people often consider it a highlight in their lives. For an entrepreneur, an insight holds the promise of success and the potential to help massive numbers of people overcome a pain point or problem. Not every insight will have a global impact, but coming up with a solution that your subconscious mind has been working on for some time is a real joy.

Evaluation

Evaluation is the purposeful examination of ideas. You will want to compare your insights with the products and ideas you encountered during preparation. You also will want to compare your ideas and product prototypes to the goals you set out for yourself during the preparation phase. Creative professionals will often invite others to critique their work at this stage. Because evaluation is specific to the expectations, best practices, and existing product leaders in each field, evaluation can take on many forms. You are looking for assurance that your standards for evaluation are appropriate. Judge yourself fairly, even as you apply strict criteria and the well-developed sense of taste you acquired during the preparation phase. For example, you might choose to interview a few customers in your target demographics for your product or service. The primary objective is to understand the customer perspective and the extent to which your idea aligns with their position.

Elaboration

The last stage in the creative process is *elaboration*, that is, actual production. Elaboration can involve the

37 Neal Zaslaw, “Mozart As a Working Stiff,” in James M. Morris, ed., *On Mozart* (Cambridge: Cambridge University Press, 1994), 109.

38 Steven M. Smith, Thomas B. Ward, and Ronald A. Finke, eds., *The Creative Cognition Approach*. Cambridge, MA: MIT Press, 1995.

39 Eugene Sadler-Smith. “Wallas’ Four-Stage Model of the Creative Process: More Than Meets the Eye?” *Creativity Research Journal* 27, no. 4 (2015): 342–352.

release of a **minimum viable product (MVP)**. This version of your invention may not be polished or complete, but it should function well enough that you can begin to market it while still elaborating on it in an iterative development process. Elaboration also can involve the development and launch of a prototype, the release of a software beta, or the production of some piece of artistic work for sale. Many consumer-product companies, such as Johnson & Johnson or Procter & Gamble, will establish a small test market to garner feedback and evaluations of new products from actual customers. These insights can give the company valuable information that can help make the product or service as successful as possible.

At this stage what matters most in the entrepreneurial creative process is that the work becomes available to the public so that they have a chance to adopt it.

LINK TO LEARNING

Test marketing can reveal much information about the potential users of a product. Visit the [Drive Research site on test markets \(https://openstax.org/l/52TestMarkets\)](https://openstax.org/l/52TestMarkets) for more information.

Innovation as More than Problem Solving

Innovative entrepreneurs are essentially problem solvers, but this level of innovation—identifying a pain point and working to overcome it—is only one in a series of innovative steps. In the influential business publication *Forbes*, the entrepreneur Larry Myler notes that problem solving is inherently reactive.^[40] That is, you have to wait for a problem to happen in order to recognize the need to solve the problem. Solving problems is an important part of the practice of innovation, but to elevate the practice and the field, innovators should anticipate problems and strive to prevent them. In many cases, they create systems for continuous improvement, which Myler notes may involve “breaking” previous systems that seem to function perfectly well. Striving for continuous improvement helps innovators stay ahead of market changes. Thus, they have products ready for emerging markets, rather than developing projects that chase change, which can occur constantly in some tech-driven fields. One issue with building a system for constant improvement is that you are in essence creating problems in order to solve them, which goes against established culture in many firms. Innovators look for organizations that can handle purposeful innovation, or they attempt to start them. Some innovators even have the goal of innovating far ahead into the future, beyond current capacities. In order to do this, Myler suggests bringing people of disparate experiential backgrounds with different expertise together. These relationships are not guarantees of successful innovation, but such groups can generate ideas independent of institutional inertia. Thus, innovators are problem solvers but also can work with forms of problem creation and problem imagination. They tackle problems that have yet to exist in order to solve them ahead of time.

Let’s examine one multilevel approach to innovation ([Figure 4.12](#)). The base is problem solving. The next level up in the pyramid, so to speak, is prevention. The next level is working toward continuous improvement, and at the top of such efforts is creating the capacity to direct the future of your industry or multiple industries so

40 Larry Myler. “Innovation Is Problem Solving . . . And a Whole Lot More.” *Forbes*. June 13, 2014. <https://www.forbes.com/sites/larrymyler/2014/06/13/innovation-is-problem-solving-and-a-whole-lot-more/#3f11abe533b9>

that you can weather disruption in your career or even to create it.

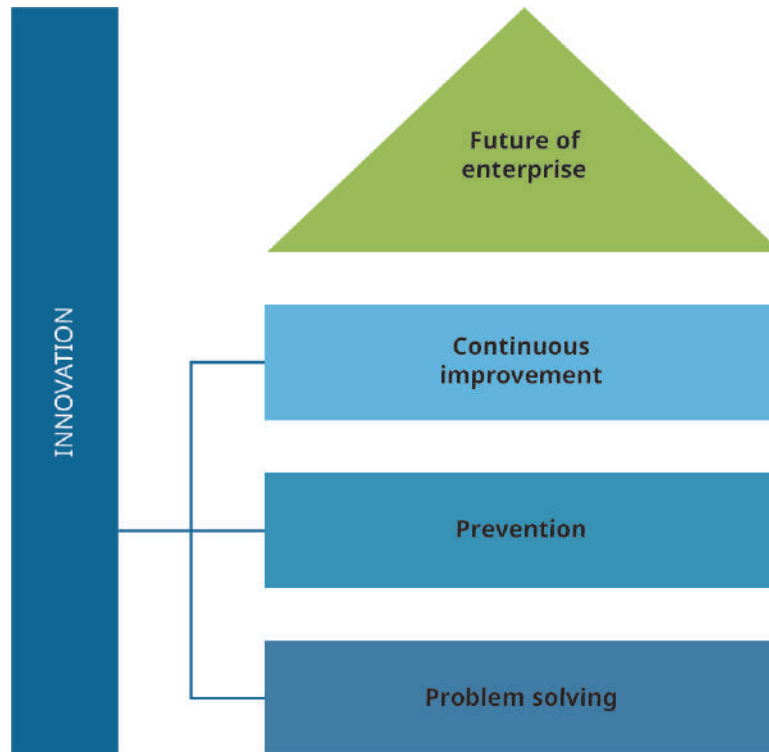


Figure 4.12 The innovation pyramid is one multileveled approach to innovation. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Even if you are not interested in shaping the future of whole industry sectors, developing future-focused innovation practices still is a good idea. It will help you prepare for disruption. The pace of technological change is such that workers at all levels need to be prepared to innovate. Innovation leaders, such as the marketing guru Guy Kawasaki, have built on psychological principles to suggest new ways to approach innovation. According to Kawasaki, innovative products include five key qualities: deep, indulgent, complete, elegant, and emotive—DICEE (Figure 4.13).^[41] You can strive to infuse individual innovations with these qualities in practical ways.



Figure 4.13 Innovative products are deep, indulgent, complete, elegant, and emotive. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Deep

Deep products are based on the logic of innovation that we've just established and anticipate users' needs before they have them. These types of innovations often have masterful designs that are intuitive for new

users while still being capable of completing complex tasks. Adobe is an innovative corporation working in several fields, such as software, marketing, and artificial intelligence. Adobe often creates software applications with basic functions that are easily accessible to new users but that also enable experienced users to innovate on their own.^[42] Creating a platform for innovation is a hallmark of deep, forward-thinking innovation.

Indulgent

Innovations with lasting power engage users in ways that make them feel special for having purchased the product or for having found the service. *Indulgence* refers to a depth of quality that does not come from being the fastest solution to a problem. Indulgence may even sound like a negative trait. In humans, it certainly can be, but for someone using an innovative product, feeling indulgent can relate to a richness of experience with the **user interface** (UI). The UI of a product, particularly a software product, is what the user sees and interacts with. A feeling of indulgence imbues your product with a sense of value and durability that reassures users and encourages them to use your product confidently.

Complete

Kawasaki's vision of a *complete* product includes the services wrapped around it and underlying it such that users understand the product well enough to be comfortable using it. Information about how it works and how it is meant to work is readily available. Thus, product innovation must include marketing and other communication efforts. For Kawasaki, this builds the "total user experience."^[43] If you truly have solved a problem in the marketplace, users will understand what that problem is and how your product and related services deliver.

Elegant

Elegance also is part of a product's UI. It refers to intuitive design that immediately makes sense to consumers. Elegance conveys more information with fewer words. Elegant design is not afraid of negative space or of the occasional pause. Elegant innovations solve problems without creating new ones. For Kawasaki, elegance is the difference between a pragmatic, good innovation and something great.

Emotive

Emotive innovations evoke the intended emotion and demand to be admired and shared. In other words, truly great innovations create fandoms, not just consumer bases. You can't force people to love your product, but you can give them experiences that create a sense of excitement and anticipation of what you might come up with next.

Developing an Invention

The general process of inventing involves systematic and practical steps that might include linear and nonlinear thinking. You might think that only people with innate artistic skills are creative and that only geniuses become innovators and inventors, but much of creativity is driven by being immersed in a practice. You can build and foster your own creativity. Your idea of an inventor might be someone like Johannes

42 Adobe Communications Team. "Adobe Named One of Fast Company's 'Most Innovative Companies' for AI." *Adobe Blog*. February 20, 2018. <https://theblog.adobe.com/adobe-named-one-fast-companys-innovative-companies-ai/>

43 Guy Kawasaki. "Guy's Golden Touch." *Guy Kawasaki*. January 3, 2006. https://guykawasaki.com/guys_golden_tou/

Gutenberg, who developed the printing press. The spread of printing ultimately redrew the map of Europe and resulted in the foundation of new centers of learning. Gutenberg's supposed spark actually was more of a slow burn. He was creative and innovative—one of history's most famous inventors—but his printing press, like all other inventions, was a synthesis of existing technologies. Gutenberg's most important innovation was his use of moveable, interchangeable metal type instead of entire hand-carved wooden blocks of text (Figure 4.14). Perfecting his printing process took decades and left him all but broke.^[44] The notion of the inventor's single stroke of genius is mostly myth. The people that history remembers usually worked very hard to develop their creativity, to become familiar with the processes and tools that were ripe for innovation in their time, and ultimately to make something so unique that society recognizes it as an invention.



(a)



(b)

Figure 4.14 Gutenberg's invention of movable type was an important innovation in printing. (credit (a): modification of "Printer in 1568-ce" by "Parhamr"/Wikimedia Commons, Public Domain; credit (b): modification of "Metal movable type" by Willi Heidelberg/Wikimedia Commons, CC BY 2.5)

The old adage claims that "necessity is the mother of invention," but an innovator needs experience in a field, creative effort, and knowledge to be a successful inventor. Entrepreneurship means taking your efforts and knowledge, and finding a market where your invention can first survive, then thrive.

One model for developing an invention is the first five steps of a plan adapted from Sourcify.com, which specializes in connecting product developers with manufacturers.^[45] This process is succinct and includes suggestions for building a team along the way (Figure 4.15).

44 John Man. *The Gutenberg Revolution*. New York: Random House, 2010.

45 Natalie Peters. "9 Key Steps to Bring Your Invention to Life." *Sourcify*. December 11, 2017. <https://www.sourcify.com/bring-your-invention-to-life/>



Figure 4.15 These are the five steps for developing an invention, according to Sourcify. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Step 1: Educate Yourself

Before your inventive product can do battle with other inventions, you will need to educate yourself. To prepare yourself to weather the competition, you need to learn as much as you can about the current investing climate, current product development opportunities, and current leadership approaches. Even if you are not deeply interested in leadership dogma, it helps to know what the current trends are in leadership and product development. To succeed as an inventor in a vast marketplace, you need to understand the rules, written and unwritten, of the industry and competitive landscape. The product development process can be quite involved. The process can vary by industry and by availability of resources.

Part of educating yourself is also gaining an understanding of your own strengths and weaknesses, and how those relate to your leadership style. A leadership style inventory can help you better understand your approach to leading others. This is just one example of many that exist to give you a starting point. As the inventor of your product or service, you will manage/lead others as you attempt to make your idea a reality. Also, the environment can constantly change. For this reason, it is important to understand the basic tenets of leadership and management in a dynamic work atmosphere. Many sources will give you insights into the challenges of management.

LINK TO LEARNING

A [leadership style inventory \(https://openstax.org/l/52LeadStyleQuiz\)](https://openstax.org/l/52LeadStyleQuiz) can help you understand your leadership style and how to adapt your own style to other situations and people.

Another key step in educating yourself is to find out which kinds of contributors you are going to need to build a successful entrepreneurial team. Building a team is essential to making your invention a reality. Even those who invent alone—and they are quite rare—must have a development team, a manufacturing and/or service team, a marketing team, and other members with specific skill sets such as coders, graphic designers, test marketers, and more.

Step 2: Stay Organized

Most tip sheets for inventors suggest that you find a method for organizing your creativity so that you don't spend time trying to remember previous ideas, plans, and decisions. You must organize information related to your business idea, your business plan, and your potential teammates in the process.

Contact management software has been popular for decades. Nowadays, you can investigate many other productivity and team-chat tools. Research ways to organize information about the people you plan to work

with and hope to work for. The team-chat program Slack (www.slack.com) enables you to create specific topics for team members to discuss and collaborate on. Slack offers several features to help keep employees connected. Insightly (www.insightly.com) is a customer relationship management tool to stay better connected to your customers. Ryver and Glip incorporate task management. Flock and Microsoft Teams offer a host of features, with Microsoft leveraging its corporate position to bring about deployment in more than 200,000 organizations. Select the tool set that works best for you and consider paying for the software that offers the precise team communication functionality and utility you need.^[46]

Step 3: Conduct Market Research

Market research is an obvious must, but many entrepreneurs fail to go as deeply as they should in researching their competition. You must be aware of current and future competitors so that you are prepared to compete in the marketplace when you are actually ready. Being the best on paper now won't be much use when you enter the marketplace with an MVP in six to eight months in competition with competitors' new products and updates.

What should you consider with regard to team development when you're looking at the competition? Within the legal limits of any noncompete clauses, you should be shopping the competition for potential team members. The best leaders are always seeking talented people. If you sense that someone would be a good fit for your team, that they have not only the skill set but also the temperament that would help put your invention in the market, do not be afraid to reach out to them. How you reach out is something you must research for each industry. In some industries, you will have to be highly secretive. Part of market research is understanding the market well enough to understand the soft skills you need to find contributors who are already working in the industry or in an adjacent one

Step 4: Conduct Patent Research

If you expect to apply for a patent, take the time to read up on policies and procedures. Officials in the US Patent Office, or in similar bureaus in other countries, decide whether an invention is worthy of receiving a patent. A patentable invention must meet the criteria of being novel, useful, and nonobvious; it must be proven to be workable.^[47] Those three standards—novel, useful, and nonobvious—are subjective. So is the concept of invention, but conceptualizing invention this way sets a high bar for entrepreneurs who truly wish to make a social impact. Developing an invention that is patentable also creates a barrier against competition, which can make the difference between business success and failure. There are two types of patents. *Utility* patents last twenty years, and *design* patents usually last fourteen years. If a patent is granted, the inventor has a window of time in which to secure further funding, work to produce the product, and try to gain mass-market adoption.^[48] After all is said and done, you can apply your creativity to social innovations, product innovations, or service innovations. If you can combine enough innovations, add your unique creativity, and create something that survives the diffusion chasm, you can truly invent something new.

The patent basics page of the US Patent and Trademark Office's website is roughly forty pages long.^[49] The utility patent process includes a thirteen-step flow chart^[50] that outlines the process. The patent office

46 Aleksey Chepalov. "9 Slack Competitors in 2019: What Team Chat Tools Are Leading the Way?" *Chanty*. March 18, 2019.

<https://www.chanty.com/blog/slack-competitors/>

47 "Patent Subject Matter Eligibility." United States Patent and Trademark Office (USPTO). n.d. <https://www.uspto.gov/web/offices/pac/mpep/s2106.html>

48 "How Long Does Patent, Trademark, or Copyright Protection Last?" Intellectual Property Rights Information and Assistance. July 7, 2016. <https://www.stopfakes.gov/article?id=How-Long-Does-Patent-Trademark-or-Copyright-Protection-Last>

49 "General Information Concerning Patents." *United States Patent and Trademark Office*. October 2015. <https://www.uspto.gov/patents-getting-started/general-information-concerning-patents>

encourages you to use a registered patent attorney or agent. If you are skilled and diligent enough to secure a patent, you should expect to pay fees and file paperwork to maintain it for years after it is granted. We've already discussed the keys to securing a patent, but to reiterate, here is how an invention is defined in US patent law: "In the language of the statute, any person who 'invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent,' subject to the conditions and requirements of the law."^[51]

When building a team to make your invention a reality, finding a patent lawyer or agent is key. Even those who have advocated for hiring patent attorneys in the past now suggest that hiring a patent agent might work. What's the difference? Patent attorneys often bill by the hour, but they offer a full suite of legal advice. As the author Stephen Key indicates, patent agents are narrowly focused on helping you get and defend your patent.^[52] The other limitation that Key mentions is that patent agents may write a patent application in such a way that you are less prepared to protect your invention against future legal challenges. Key quotes Gene Quinn, a leading attorney on intellectual property and patent law: "By the time you realize that you are sitting on a million-dollar invention it will be too late to do anything about it....Patent agents as a general rule tend to be very good at describing what it is that you as an inventor show up with." What they tend to be much less good at is describing what your invention could be. They also frequently will use terms that are more concrete and limiting than would a patent attorney. Attorneys are taught the art of being hyper-specific, which is necessary at times, but also the art of being anything but specific."^[53] Patents cannot be vague, but they can be written with just the right amount of specificity to protect against similar products that may arise and threaten your market share.

Step 5: Develop a Prototype

Developing a prototype can be the most fun or the most tedious part of inventing. Much of your attitude toward developing a prototype depends on available resources, technology, and expertise. In this text, we reference the concept of the lean startup from time to time. In the lean startup model, the prototype is most often an MVP. As we saw earlier, an MVP is a version of your invention that may not be polished or complete in terms of how you envisioned it, but it functions well enough and looks good enough that you can begin to market it with reasonable hopes that it will be adopted. For other inventions, you may need to build a more advanced prototype. This requires serious investment capital, but the payoff is that users will interact with a version of the product that looks and functions more like what you had in mind during your ideation phase. As an inventor, you are responsible for establishing quality control minimums for your product. You may have to compromise on your vision, but you should not compromise on basic functionality or basic levels of quality in materials.

You have many options at the prototype development stage. You can build the prototype yourself or with a small team. You can partner with design/invention firms that specialize in helping inventors create, but you must be very careful and involve your legal representation when working with such firms to be sure that you maintain the patents and other rights to your invention. Many inventors have partnered with such firms only to see their intellectual property stolen. Another option is to get funding for your invention on Kickstarter or some other crowdfunding site, but again you must beware that establishing such a campaign puts your idea in

50 "Process for Obtaining a Utility Patent." *United States Patent and Trademark Office*. n.d. <https://www.uspto.gov/patents-getting-started/patent-basics/types-patent-applications/utility-patent/process-obtaining>

51 "What Can Be Patented" in "General Information Concerning Patents." *United States Patent and Trademark Office*. October 2015. <https://www.uspto.gov/patents-getting-started/general-information-concerning-patents#heading-4>

52 Stephen Key. "Should You Hire a Patent Agent Instead of a Patent Attorney?" *Inc.* October 26, 2016. <https://www.inc.com/stephen-key/should-you-hire-a-patent-agent-instead-of-a-patent-attorney.html>

53 "Gene Quinn." *IP Watchdog*. n.d. <https://www.ipwatchdog.com/people/gene-quinn-3/>

the public sphere. “Copycatters are monitoring crowdfunding platforms like Kickstarter and watching for trendy products to go viral,” according to Amedeo Ferraro, an intellectual property attorney.^[54] Competing companies, particularly in foreign markets, actively scout Kickstarter and similar platforms for new ideas that they can manufacture and bring to market before your crowdfunding project has run its course. Perhaps most chilling is this comment regarding legal protections that do not function, even when inventors take precautions to protect their intellectual property when working with some Chinese firms: “But even with these protections, there’s no guarantee that you can stop someone from copycatting your product. [One U.S. intellectual property lawyer] said that the problem lies not in China’s courts but enforcing rulings. Winning a case against one factory is relatively easy. But suing every factory and winning is expensive and time consuming.”^[55] For this reason, some inventors prefer to start small and local, if possible. It can be better for them to start with a trusted team striving for a small profit and a good market position than to see the market flooded with copycat products.

54 Jennifer Schlesinger, Andrea Day, Bianca Fortis, Eunice Yoon, and Lilian Wu. “How One Entrepreneur’s American Dream Turned into a Copycat Nightmare.” *CNBC*. April 30, 2019. <https://www.cnn.com/2019/04/30/how-one-entrepreneurs-american-dream-turned-into-a-copycat-nightmare.html>

55 Josh Horwitz. “Your Brilliant Kickstarter Idea Could Be on Sale in China before You’ve Even Finished Funding It.” *Quartz*. October 17, 2016. <https://qz.com/771727/chinas-factories-in-shenzhen-can-copy-products-at-breakneck-speed-and-its-time-for-the-rest-of-the-world-to-get-over-it/>

Key Terms

brainstorming generation of ideas in an environment free of judgment or dissension with the goal of creating solutions

creativity development of original ideas

design thinking method to focus the design and development decisions of a product on the needs of the customer, typically involving an empathy-driven process to define complex problems and create solutions that address those problems

diffusion chasm most critical point of adoption, which often occurs at the end of the early adoption phase, before the early majority steps in and truly confirms (or not) the diffusion of an invention

disruptive innovation process that significantly impacts the market by making a product or service more affordable and/or accessible often by smaller companies in an industry

empathy human ability to feel what other humans are feeling, which in the context of creativity, innovation, and invention is essential to beginning a process of human-centric design

ideation purposeful process of opening up one's mind to new trains of thought that branch out in many directions from a stated purpose or problem

incremental innovation innovation that modifies an existing product or service

innovation new idea, process, or product, or a change to an existing product or process

invention truly novel product, service, or process that, though based on ideas and products that have come before, represents a leap, a creation truly novel and different

iterative development process in which inventors and innovators continuously engage with potential customers in order to develop their products and their consumer bases at the same time

lateral thinking free and open thinking in which established patterns of logical thought are purposefully ignored or even challenged

linear thinking logical, step-by-step process

minimum viable product (MVP) early version or prototype of a product that may not be polished or complete but that functions well enough that you can begin to market it or test it with potential users

open innovation searching for and finding solutions outside of the organizational structure

pain point problem that people have with a product or service that might be addressed by creating a modified version that solves the problem

pioneering innovation one based on a new technology, a new advancement in the field, and/or an advancement in a related field that leads to the development of a new product

scientific method most often associated with the natural sciences, outlines the process to discover an answer to a question or a problem

user interface what the user sees and interacts with

Summary

4.1 Tools for Creativity and Innovation

There are many practical approaches to being creative and developing innovations. Many programs and models encourage creative thinking. Some of the best encourage entrepreneurs to think like the stakeholders they hope their products and services will help. Human-centered design begins with empathizing with the people experiencing a problem or pain point. It continues through steps meant to clearly define problems and examine solutions through careful testing. Returning to empathy is essential in the human-centric design protocol. The Six Thinking Hats method of ideation can open up deep avenues of creative thought directed at

solving problems by *limiting* the roles individuals in a group play. This reinforces the idea that creative thinking is a practice, that it can be guided, and that sometimes a combination of open thinking and rule following is ideal for collaborative creativity. The statement starter method of creative thinking frames every problem as though there must be a solution. This type of open thinking is an effective way to begin a creative journey that can lead to innovation and invention of products or services for social benefit.

4.2 Creativity, Innovation, and Invention: How They Differ

Creativity is defined as the ability to develop something original, particularly an idea or an artistic representation of an idea. Innovation occurs when an individual or a firm applies something new to an existing product or service that adds value. Innovation can be planned or spontaneous, incremental or pioneering. Some pioneering innovations rise to the level of being unique inventions—truly novel products, services, or processes that, though based on ideas and products that have come before, represent a leap.

The diffusion curve is related to iterative innovations versus black box innovations. Innovators and inventors conduct the iterative innovation process by engaging with potential consumers on a near-continuous basis in order to develop the product and the consumer base at the same time, thus bridging the diffusion chasm. Black box innovations either jump the chasm or not, depending on the social perceptions through which they are perceived by potential users, the quality of the product itself, and marketing strategies.

4.3 Developing Ideas, Innovations, and Inventions

Whether an entrepreneur has innate creativity or not, practice can help improve creative efforts. One practice model includes preparation, incubation, insight, evaluation, and elaboration. Entrepreneurs can use their creativity to solve problems and innovate. However, innovators strive to anticipate and prevent problems, rather than react to them. The innovation pyramid begins with problem solving at the base, moving up to prevention, then continuous improvement, and finally directing the future of an industry. Innovative products are DICEE: They are deep, indulgent, complete, elegant, and emotive.

Building and fostering your own creativity often involves linear and nonlinear thinking. Models are available that help develop inventions, such as Sourcify.com's five steps: Educate yourself, stay organized, conduct market research, conduct patent research, and develop a prototype. This model has guidelines for working with teams as well. These models allow you to apply your knowledge of creativity, innovation, and invention in an entrepreneurial context. Seek inspiration from inventors who have come before and learn from the modes of thought and models of practice that guide inventors today.



Review Questions

1. The question "How might we find a way to make use of DVDs and other physical media as users adopt streaming services for films and television over time?" is an example of which form of ideation?

- A. statement starter
- B. open innovation
- C. design thinking
- D. brainstorming

2. The creative process that begins with empathy is known as _____.
 - A. Stanford's model of human-centric design
 - B. build-measure-learn
 - C. open innovation
 - D. disruptive innovation
3. In the Six Hats exercise, new ideas are the purview of the _____.
 - A. Black Hat
 - B. Blue Hat
 - C. Green Hat
 - D. Red Hat
4. _____ is thinking strategically, often to create human-centered products.
 - A. Creativity
 - B. Innovation
 - C. Invention
 - D. Design thinking
5. An innovation that is *not* developed in tandem with consumers but that is introduced in a society or in a targeted market as completed and "finished" is often referred to as a "_____."
 - A. design thinking
 - B. iterative development
 - C. black box
 - D. corporate narrative
6. If linear thinking is the idea that progress follows or should follow a set of established, logical steps, _____ is free and open thinking where established patterns of logical thought are purposefully ignored or even challenged.
 - A. design thinking
 - B. iterative development
 - C. corporate narrative
 - D. lateral thinking
7. The model for building _____ also includes steps for team building, suggesting that the most complex developments require more than the lone mad scientist in a lab, despite what is often depicted in popular culture.
 - A. creativity in an individual
 - B. innovations
 - C. inventions
8. Problem solving is part of but not the entire model for building innovations. True or False?
 - A. true
 - B. false
9. DICEE is a model for _____ that focuses on going beyond problem solving to get at the underlying qualities of what makes certain new products "sticky" in ways that make people true fans.
 - A. creativity in practice
 - B. innovative products
 - C. inventions
 - D. building creative teams



Discussion Questions

1. Open innovation can be criticized for being vague and encouraging corporations to attempt to commit corporate espionage to look for solutions to problems shared by multiple firms in the same field. Is open innovation all it is cracked up to be? Is it truly new? Does it encourage intellectual property theft?
2. At what point is a product truly inventive? Can you think of products that some people think are inventions but that other people consider mere variations of previous products?
3. What is the value of creative efforts that are not meant for sale and that are never turned into products for the marketplace?
4. Critics of contemporary society suggest that there is something akin to a “technology cult” around the world. Some people treat innovation and inventiveness as cure-alls even as social conditions such as poverty, environmental degradation, and hunger persist. Can innovation cure all of society’s ills? If so, what is standing in the way? Why hasn’t the modern era solved basic human needs and human rights problems with technology?
5. Can you think of a product you or someone you know adopted early only to watch it fall into the diffusion chasm between early adopters and early majority adopters? What was that product, and why do you think it failed to make it across that gap?
6. What makes a model for creativity necessary? Isn’t creativity the opposite or the absence of structure?
7. Why does the model for innovation stress that it does not end with problem solving?
8. Why does the section on invention focus so much on building a team? Aren’t most inventors and truly creative people famous for working solo?



Case Questions

1. Open innovation means more than searching online for others who are attempting to solve the same problems you are and trying to take inspiration from other corporations and other entrepreneurs. It also involves forming partnerships, supporting new ventures, investing in business accelerators, and acquiring firms that innovate in ways that are valuable to your firm or to your entrepreneurial effort (assuming you can raise the capital to acquire a firm while you develop your invention).^[56] Think of an example of a firm (other than Samsung, the example from Merit Morikawa’s article, and Apple, the “easy” answer) that has engaged in all of these practices. What seems to drive these different modes of open innovation? When are they most appropriate? When are they not appropriate ethically?

56 Merit Morikawa. “16 Examples of Open Innovation: What Can We Learn From Them?” *Viima*. November 20, 2016. <https://www.viima.com/blog/16-examples-of-open-innovation-what-can-we-learn-from-them>

2. Read this article to prepare for answering this question: <https://www.brookings.edu/blog/brookings-now/2018/05/23/artificial-intelligence-will-disrupt-the-future-of-work-are-we-ready/>. (Brennan Hoban. "Artificial Intelligence Will Disrupt the Future of Work. Are We Ready?" Brookings. May 23, 2018.)

Many signs point to growing automation across a variety of industries in the coming decades. In many cases, disruptive technologies will force people to innovate. Based on the DICEE innovation model, explain how humans will be needed on the design side of innovation to create human-centric products. In what ways can you create a career that is "disruption-proof"?



Suggested Resources

4.1 Tools for Creativity and Innovation

The World's 25 Best Design Schools: <https://www.businessinsider.com/the-worlds-25-best-design-schools-2012-11>

Open Innovation Community: <http://openinnovation.net/>

The Seven All-Time Greatest Ideation Techniques: <http://www.innovationmanagement.se/2013/05/30/the-7-all-time-greatest-ideation-techniques/>

Ideation Method: Mash-Up: <https://www.ideo.com/pages/ideation-method-mash-up>

LUMA Institute's LUMA System of Innovation: <https://www.youtube.com/watch?v=qDyElJ0xe2o>

Ideation Method: Top Five: <http://www.designkit.org/methods/15>

4.3 Developing Ideas, Innovations, and Inventions

Additional information about product development: <https://www.smartsheet.com/all-about-new-product-development-process>

A summary of various leadership styles and traits that are essential for a changing business environment: <https://www.christinespeaks.com/management/demonstrate-dynamic-leadership>

Identifying Entrepreneurial Opportunity

Figure 5.1 Chris Johnson, CEO and founder of California-based company Rapid Brands, invented the Rapid Ramen Cooker and has since grown his offerings to a line of successful products. (credit: photo provided by Rapid Brands Inc.)

Chapter Outline

- 5.1 Entrepreneurial Opportunity
- 5.2 Researching Potential Business Opportunities
- 5.3 Competitive Analysis



Introduction

Like many college students, Chris Johnson ate a lot of ramen noodles, and like many college students, cooking meant microwaving something in his dorm room. At the time, ramen noodle companies did not print microwave instructions on the package, and there was a lack of microwave cookware in which to prepare the popular college food fare.

Many entrepreneurial ideas aim to solve small everyday problems. In his quest to find a better way to prepare ramen noodles, Chris Johnson invented the Rapid Ramen Cooker.

Johnson is now the CEO of Rapid Brands. He founded his company in 2013 with the Rapid Ramen Cooker. Johnson pitched his idea on the TV show *Shark Tank*. Although he negotiated with investor Mark Cuban for an ownership stake in the company, Johnson wound up not taking the deal. Instead, he made a deal with Walmart to position the Ramen cooker on the retailer's shelves. Rapid Brands sold more than 4 million Rapid Ramen Cookers in its first two years at Walmart and other retailers. Johnson has since introduced several new products, including cookers for eggs, hot dogs, and brownies.^[1]

Finding an entrepreneurial opportunity and persisting until your business becomes successful is not easy and

1 Mark Anderson. "Local 'Shark Tank' Winner Cooks up a Major Expansion." *Sacramento Business Journal*. April 4, 2016. <https://www.bizjournals.com/sacramento/news/2016/04/04/local-shark-tank-winner-cooks-up-a-major-expansion.html>

involves risk. But whether you start a new venture because you came up with an idea to solve an everyday problem, or whether you are deliberately searching for an opportunity because you want to start your own business, doing the research beforehand will help mitigate risk and determine the venture's likelihood of success.

5.1 Entrepreneurial Opportunity

Learning Objectives

By the end of this section, you will be able to:

- Define entrepreneurial opportunity
- Discuss Joseph Schumpeter's theories of opportunity
- Identify key drivers of opportunity

Aspiring entrepreneurs can come up with ideas all day long, but not every idea is necessarily a good idea. For an idea to be worth pursuing, we must first determine whether the idea translates into an *entrepreneurial opportunity*. **Entrepreneurial opportunity** is the point at which identifiable consumer demand meets the feasibility of satisfying the requested product or service. In the field of entrepreneurship, specific criteria need to be met to move from an idea into an opportunity. It begins with developing the right mindset—a mindset where the aspiring entrepreneur sharpens his or her senses to consumer needs and wants, and conducts research to determine whether the idea can become a successful new venture.

In some cases, opportunities are found through a deliberate search, especially when developing new technologies. In other instances, opportunities emerge serendipitously, through chance. But in most cases, an entrepreneurial opportunity comes about from recognizing a problem and making a deliberate attempt to solve that problem. The problem may be difficult and complex, such as landing a person on Mars, or it may be a much less complicated problem such as making a more comfortable pillow, as entrepreneur Mike Lindell did by inventing My Pillow.

Theories of Opportunity

In the twentieth century, economist Joseph Schumpeter, as shown in [Figure 5.2](#), stated that entrepreneurs create value “by exploiting a new invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganizing an industry” or similar means.^[2]

2 Joseph Schumpeter. *Capitalism, Socialism, and Democracy*, 3rd ed. (New York: Harper Torchbooks, Harper and Row Publishers, 1950), 132–134.



Figure 5.2 Schumpeter believed that entrepreneurs create value in an economy. (credit: Joseph Alois Schumpeter, ca. 1910: HUGB S276.90 p (2), olwork369436. Harvard University Archives)

According to Schumpeter, entrepreneurial innovation is the disruptive force that creates and sustains economic growth, though in the process, it can also destroy established companies, reshape industries, and disrupt employment. He termed this force **creative destruction**. Schumpeter described business processes, including the concept of downsizing, as designed to increase company efficiency. The dynamics of businesses advances the economy and improves our lifestyle, but the changes (sometimes through technology) can make other industries or products obsolete. For instance, Schumpeter provided the example of the railroad changing the way companies could ship agricultural products quickly across the country by rail and using ice “cold cars,” while at the same time, destroying the old way of life for many ranchers who wrangled cattle from one location to their intended commercial destination.

Today, we might think of the displacement of taxi drivers by ride-sharing services such as Uber and Lyft as a modern-day example of this concept. To own and operate a New York City cab, for instance, one must buy what is called a taxi medallion, which is basically the right to own and operate a cab. Drivers take out loans to buy these medallions, which cost hundreds of thousands of dollars. But now, ride-sharing services have eaten in to the taxi industry, all but destroying the value of the medallions, and the ability of taxi drivers to make the same money they were before the popular services existed. This change has left many taxi drivers in financial ruin.^[3] Schumpeter argued that this cyclic destruction and creation was natural in a capitalist system, and that the entrepreneur was a prime mover of economic growth. To him, the goal was to progress, and progression starts with finding new ideas. He identified these methods for finding new business opportunities:

1. Develop a new market for an existing product.
2. Find a new supply of resources that would enable the entrepreneur to produce the product for less money.

3 Winnie Hu. “Taxi Medallions, Once a Safe Investment, Now Drag Owners Into Debt.” *The New York Times*. September 10, 2017. <https://www.nytimes.com/2017/09/10/nyregion/new-york-taxi-medallions-uber.html>

3. Use existing technology to produce an old product in a new way.
4. Use an existing technology to produce a new product.
5. Finally, use new technology to produce a new product.

We can understand theories of opportunity as related to supply or demand, or as approaches to innovations in the use of technology. The first situation is a demand opportunity, whereas the remaining situations are supply situations. The final three incorporate technological innovations. *Supply* and *demand* are economic terms relating to the production of goods.

Supply is the amount of a product or service produced. **Demand** is the consumer or user desire for the outputs, the products, or services produced. We can use the ideas from Schumpeter to identify new opportunities. Our focus is on identifying where the current or future supply and the current or future demand are not being met or are not aligned, or where technological innovation can solve a problem.

More recent research has expanded on the concept of technological entrepreneurial opportunities, identifying several areas: creating new technology, utilizing technology that has not yet been exploited, identifying and adapting technology to satisfy the needs of a new market, or applying technology to create a new venture.^[4]

Regardless of which of Schumpeter's paths entrepreneurs pursue, before investing time and money, the business landscape requires a thorough investigation to see whether there is an entrepreneurial opportunity. Remember, entrepreneurial opportunity is *the point at which identifiable consumer demand meets the feasibility of satisfying the requested product or service*. "Feasibility" in this definition includes identifying a sizable target market interested in the product or service that has sufficient profitability for the venture's financial success.

ENTREPRENEUR IN ACTION

Chester Carlson

Chester Carlson, a physicist, inventor, and patent attorney, spent ten years searching for a company to develop and manufacture a new photographic machine for office use to make copies faster and for less money. Carlson went on to found the XEROX Corporation, the company that made the first photocopy machines. Can you imagine a school or office today without a photocopy machine? The companies that Carlson approached with his invention missed the opportunity to invest. For Carlson, it was the beginning of a technology product development company that has been granted more than 50,000 patents worldwide.

Today, Xerox continues to innovate. Visit the innovation section of its website (<https://www.xerox.com/en-us/innovation>) and consider how one of the inventions it's developing now could spur creative destruction in an industry, according to Schumpeter's theory.

Identifying Opportunity

A good place to begin your entrepreneurial quest is to read as much as you can, especially with new technology developments, even outside the field you work in. Remember that as technologies start to emerge,

4 Jamalia Behrooz, Reza MohammadKazemi, Jahangir Yadollahi Farsi, and Ali Mobini Dehkordi. "Theories of Opportunity Creation and Effective Entrepreneurial Actions in Opportunity Creation Context." *Decision Science Letters* 7, no. 4 (2018): 443–454.

we often do not yet understand their commercial potential. For example, microwave technology was first applied in radars to track military submarines. But, thanks to a curious man named Percy Spencer and the accidental melting of a peanut bar in his pocket one day while tinkering with the technology, the microwave was born. It would take a few decades for it to be produced at a price the mass market could afford.^[5]

Think of drones, too. When they were invented, the multiple uses for this technology were not yet identified. Now, drone technology is being used by real estate firms, package delivery services, agriculture, underwater search and scientific research, security, surveillance, and more. Being tuned in to new experiences and information can lead to identifying opportunities. Entrepreneur Fred Smith found a system to solve the problem of overnight package delivery in founding Federal Express.^[6] As a college student, he wrote a paper for an economics class where he discussed his business idea. He earned only a C on his paper, by the way. He received his bachelor's degree in 1966 and went on to found Federal Express a few years later, which, in 2019, generated almost \$70 billion in revenue.^[7] Prior to starting Federal Express, Smith was in the US Marine Corps serving in Vietnam where he observed the military's logistics systems.^[8] This is where he honed his interest in shipping products while in the military. Many entrepreneurs start their business after working for someone else and seeing a better way to operate that business, and then start their own competing business.

Note that entrepreneurs need to be careful about starting competing businesses. See [Telling Your Entrepreneurial Story and Pitching the Idea](#) and [Business Structure Options: Legal, Tax, and Risk Issues](#) for information on noncompete clauses and agreements. Indeed, some entrepreneurs, like Smith, conduct research as an idea percolates, paying attention to new experiences and information to further advance their idea into an entrepreneurial opportunity. However, they must ensure that the existing product, service, or business process is not covered by any active and protected intellectual property (patent, trademark, copyright, or trade secret), as discussed in [Creativity, Innovation, and Invention](#) and [Fundamentals of Resource Planning](#).

Identifying consumer needs may be as simple as listening to customer comments such as "I wish my virtual orders could be delivered more quickly." or "I can never seem to find a comfortable pillow that helps me sleep better." You can also observe customer behavior to gather new ideas. If you are already in business, customer feedback can be a simple form of market research.

When purchasing an existing business or franchise, the process is a bit different. The first step will usually be searching for a business that suits your experience, personal preferences, and interests. You will still want to conduct research to understand the industry, the local market, and the business itself. Then, you will begin to examine all available company financial data. If purchasing a franchise, you may want to contact other franchise owners and discuss their experience in working with the franchisor.

5 Matt Blitz. "The Amazing True Story of How the Microwave Was Invented by Accident." *Popular Mechanics*. February 24, 2016. <https://www.popularmechanics.com/technology/gadgets/a19567/how-the-microwave-was-invented-by-accident/>

6 "Success Story – Fred Smith | Federal Express." *Daily10Minutes*. n.d. <http://www.dailytenminutes.com/2017/09/success-story-fred-smith-federal-express.html>

7 "FedEx Corp. Reports Fourth Quarter and Full-Year Earnings." *Federal Express*. June 25, 2019. <http://investors.fedex.com/news-and-events/investor-news/news-release-details/2019/FedEx-Corp-Reports-Fourth-Quarter-and-Full-Year-Earnings/default.aspx>

8 Vance H. Trimble. *Inventing FedEx: The Cruel Ordeal* (2012). Vance Trimble. *Overnight Success: Federal Express and Frederick Smith, Its Renegade Creator* (1993).

ENTREPRENEUR IN ACTION

How Spanx Founder Developed Resilience and Persistence^[9]

Another entrepreneur, Sara Blakely (Figure 5.3), admits that for the seven years she spent selling fax machines in the 1990s, many times, she became so frightened of approaching sales prospects that she would burst into tears and then have to drive around the block to collect herself before she could complete the next sales call.



(a)



(b)

Figure 5.3 (a) Spanx, a new product that was created to solve an everyday problem, was invented by (b) Entrepreneur Sara Blakely (far right). (credit (a): “Spanx” by Mike Mozart/Flickr, CC BY 2.0; credit (b): “Ed Bastian and Sara Blakely at the Fast Company Innovation Festival” by Nan Palmero/Flickr, CC B 2.0)

One day in 1998, she was putting on pants and looked in the mirror and did not like how she looked. So, Blakely came up with the idea to wear a pair of control-top pantyhose underneath—but she cut the feet out. Blakely liked the look and comfort of the footless hose and decided to patent her own body-shaping footless version. Just a few years later, Blakely founded her company, Spanx, Incorporated, which since has gone on to launch more than 200 styles of body-shaping garments. This is another case of an entrepreneurial company born out of a simple way to solve an everyday problem.

Blakely is also a master of resilience, which is a quality of many successful entrepreneurs. When she was sixteen years old, right around the time her parents separated, she witnessed a good friend get hit and killed by a car. Her father gave her a set of motivational tapes to listen to: *How to Be a No-Limit Person* by Wayne Dyer. She found the tapes so helpful that she memorized all of them and still gives copies of the tapes as gifts.

As a child, her father encouraged his children to respect the valuable lessons we can learn through failure. Obviously, it helped Blakely at a young age develop persistence and determination. That persistence and determination helped her develop a business idea into a billion-dollar enterprise.

- Was Blakely’s idea a demand or a supply idea?
- What industry information would Blakely need as she was researching this idea?

9 Teri Evans. “Sara Blakely on Resilience.” *Entrepreneur*. March 21, 2011. <https://www.entrepreneur.com/article/219367>

When researching supply and demand, you should also consider political factors. For example, changes in tax laws can inform decisions. One example is a tax credit that encourages alternative energy use, such as electric or hybrid vehicles. For 2019, the IRS tax credit is between \$2,500 and \$7,500 per new electric vehicle, with a concurrent phase-out of the plug-in electric vehicle tax credit. Changes in the tax code can therefore influence buyer behavior or the demand for vehicles. Another example is the Residential Energy Efficient Property Credit of up to \$4,000 for solar electronic appliances such as solar water heaters and solar panels and for small wind turbines, through the end of 2021.^[10] Tax incentives do not usually last more than a few years (the tax subsidy for corn farmers to produce ethanol, an ingredient in automotive fuels, is a notable exception due to heavy lobbying by the farming industry), so it is important that entrepreneurs do not rely on these incentives as a permanent “pillar” of their value proposition and business model.

Let’s say you have an interest in machinery and art. Taking these two areas of interest, and knowing about this tax credit, you recognize that you have the talents to create artistic backyard wind turbines to create energy for a homeowner. Of course, you will still need to determine whether this is merely an idea, or if the conditions are in place to move forward in translating this idea into an entrepreneurial opportunity.

Drivers of Opportunity

Some recent drivers for change in the entrepreneurial space include new funding options, technological advancements, globalization, and industry-specific economics.

- Increased access to capital through social media sources like crowdsourcing (see the chapter on [Problem Solving and Need Recognition Techniques](#) for a more detailed discussion of crowdsourcing) is having a significant impact on entrepreneurship in that it enables underserved people and communities—such as women, veterans, African Americans, and Native Americans, who otherwise might not be able to start and own a business—to become entrepreneurs.
- Technological advancements continue to provide new opportunities, ranging from drones to artificial intelligence, advancements in medical care, and access to learning about new technology. For example, drone technology is being used to map and photograph real estate, deliver products to customers, and provide aerial security and many other services. Cell phones have spawned many new business opportunities for a wide range of cell phone accessories and related products, ranging from cell phone cases to apps that help make our cell phones faster for business and personal use.
- Increased globalization drives entrepreneurship by allowing importing and exporting to flourish. Globalization also helps spread ideas for new products and services to a world market instead of a local or regional market. Combined with the Internet and computer technology, even small businesses can compete and sell their products around the globe.
- Economic factors could include a strong economy that fuels other businesses. For example, growth in the housing market fuels growth for many housing-related products and services, ranging from interior decorating to landscaping as well as furniture, appliances, and moving services.

David Pridham, CEO of the patent advisory board and transaction firm Dominion Harbor Group in Dallas, cites six reasons that current conditions are excellent for startups:

1. Venture capital investment, which you will learn more about in [Entrepreneurial Finance and Accounting](#), has surged to the highest level ever, totaling \$148 billion in 2018.
2. The concern over patent protection is improving with better trade protection of intellectual property rights.

10 “Tax Credits for Energy Efficient Home Improvements.” *EFile.com*. January 24, 2019. <https://www.efile.com/tax-credit/energy-credit/>

3. Artificial intelligence could be a tremendous opportunity based on a McKinsey report projection, estimating artificial intelligence to become a \$13 trillion industry by 2025.
4. The explosive growth in freelance workers has been a boon to startups and small businesses.
5. Another hot sector is technology-driven advancements such as self-driving vehicles.
6. Intellectual property now accounts for 38.2 percent of our total Gross Domestic Product (GDP) in the United States. That totals \$6 trillion per year, more than any other nation's GDP except for China.^[11]

In addition, Silicon Valley Bank (SVB) Financial Group surveyed new startup businesses in 2017 and found that 95 percent indicated they believe that business conditions will be the same or better. In addition, 83 percent plan to increase their workforce, and 24 percent found fundraising not to be a challenge.^[12] These numbers represent the highest levels of optimism among entrepreneurs over the most recent five-year period.

Some other economic indicators favor entrepreneurship. According to the 2019 Goldman Sachs Economic Outlook, consumer confidence is up, business confidence is up, interest rates remain reasonable and steady, more people are working, and wages are higher.^[13] When the economy is strong, there are generally more opportunities available and more potential customers with money to purchase your products and services; but of course, there are no guarantees.

LINK TO LEARNING

There are debates about so-called kill zones—markets that the tech giants like Facebook and Amazon control through aggressive anticompetitive tactics. Some argue that these zones have frightened off investors and stifled competition. But others maintain that investment in young tech startups is as strong as ever and that the creative effects of big tech companies outweigh their destructive forces.

Read this [article on how tech giants make it difficult for startups \(https://openstax.org/l/52TechGiant1\)](https://openstax.org/l/52TechGiant1) from *The Economist* and then this [blog post refuting the idea that tech giants kill startups \(https://openstax.org/l/52TechGiant2\)](https://openstax.org/l/52TechGiant2) from The American Enterprise Institute and see what you think about the issue.

5.2 Researching Potential Business Opportunities

Learning Objectives

By the end of this section, you will be able to:

- Describe opportunity screening
- Identify common sources of research data
- Explain how to research and verify business opportunities
- Identify industry and consumer sources of opportunities

In order to discover how reasonable your business idea is, you need to research many aspects of the concept.

11 David Pridham. "Entrepreneurs: Here's Good News for 2018." *Forbes*. January 10, 2018. <https://www.forbes.com/sites/davidpridham/2018/01/10/entrepreneurs-heres-good-news-for-2018/#18f02aef6659>

12 Silicon Valley Bank. *2019 Startup Outlook Report*. 2019. <https://www.svb.com/startup-outlook-report-2019>

13 Goldman Sachs. *2019 Outlook: The Home Stretch*. US Economics Analyst. November 18, 2018. <https://www.goldmansachs.com/insights/pages/outlook-2019/us-outlook/report.pdf>

Opportunity screening is the process by which entrepreneurs evaluate innovative product ideas, strategies, and marketing trends. Focusing on the viability of financial resources, the skills of the entrepreneurial team, and the competition, this screening helps determine the potential for success in pursuing the idea and can help refine planning.

Common Sources of Research Data

As you embark on researching whether your idea is viable, a good place to start is with the sources recommended by the US Small Business Administration. These include US Census data (<https://www.census.gov/academy>), which provides insight into the population in your market area, such as the metropolitan statistical area data, as well as statistics on the economy and trade. For most entrepreneurs, research will also include asking potential customers, specifically your target customers, questions about products they like and don't like, how a product or service could be improved, how the customer buying experience could be improved, and even where customers might go to purchase products and services instead of your business.

Small business marketers can use several no-cost or low-cost methods, including surveys, questionnaires, focus groups, and in-depth interviews. Of course, you do not need to be an expert in these areas. Business assistance is available to you from the Small Business Administration, the Service Corps of Retired Executives (SCORE), and your local Small Business Development Center. You may also have a local college or university business department that provides assistance to local area businesses.

LINK TO LEARNING

The [Small Business Administration website \(https://openstax.org/l/52SBA2\)](https://openstax.org/l/52SBA2) and [SCORE website \(https://openstax.org/l/52SCORE2\)](https://openstax.org/l/52SCORE2) are rich resources of information for entrepreneurs.

You will likely begin with **secondary research**—that is, data that are already available through some published source. There may be articles, research reports, or reliable Internet sources where you can research information about your industry, products, and customers. If you have the funds, you can also purchase research reports from firms that specialize in gathering research on certain topics or products. Secondary research has the advantage of being quickly available. However, secondary research often is not specific enough to provide all the details you need to know about your idea. For example, secondary research (this is research that has been developed from primary sources that is almost as useful as primary, direct research) might report how often consumers purchase shampoo, where they purchase shampoo, and what brands of shampoo they purchase. But if you want to understand the details of how people shampoo—for example, whether they shampoo then repeat, use a separate conditioner, or use a combination shampoo/conditioner product—then you would want to conduct primary research. Primary research is needed when secondary research does not address the questions you want to explore while investigating your business idea.

Primary research gathers data that do not yet exist. The information is specific to the business, product, or consumer. It takes time and money to obtain primary data. Some of the methods used to gather primary research data include developing a survey questionnaire, using secret shoppers, or using focus groups. Survey questionnaires can be simple, such as a customer comment card included on a receipt, or extensive, including dozens of detailed questions. Secret shoppers can be used by hiring a shopping service or using friends, family

members, and even your customers. One local small business owner gave a friend gift certificates that could be used at his ice cream business in exchange for the friend reporting back on product quality, service, and other key issues.

Researching and Verifying the Entrepreneurial Opportunity

Whether you start your own business, buy an existing business, or purchase a franchise, researching the industry, your target market, and examining the economic and funding options are all part of performing due diligence. Due diligence is the process of taking reasonable steps to verify that your decisions are based on well-researched and accurate information. It means thoroughly researching potential pursuits, asking detailed questions, and verifying information.

Different industries have different meanings for due diligence. For example, in the legal industry, due diligence involves understanding the terms of a transaction and contract. In business finance, due diligence refers to raising capital or the work involved in merger and acquisition transactions. In the entrepreneurship field, research is necessary to verify whether the idea is really an opportunity, considering the entire process of starting the venture and funding the venture.

One of the more common questions entrepreneurs must ask is whether *now* is a good time to start a business. This question of timing is addressed in the investigation to determine whether the idea is merely interesting or fits the criteria of being an entrepreneurial opportunity.

An idea can move to a recognized opportunity when the following criteria are met. [Figure 5.4](#) shows these three factors:

- Significant market demand
- Significant market structure and size
- Significant margins and resources to support the venture's success

Significant market demand means that the idea has value by providing a solution to a problem that the target market is willing to purchase. This value can result from a new product or service that fills an unmet need, a lower price, improved benefits, or greater financial or emotional value. This value can also result from capitalizing on "nonconsumption." For example, in the 1980s, the Disney Corporation realized that it was losing an opportunity to entice visitors to come to their theme parks from 9 p.m. to 9 a.m. when they were closed. So the company started having "school nights" when schools and students could use the parks at a discount.

Significant market structure and size involve growth potential and drivers of demand for the product or service. Barriers to entry are manageable, meaning that entering the industry or creating a new industry is not exceptionally difficult. If the industry already exists, there must be room within the industry for your venture to gain market share by providing a value that creates a competitive advantage.

Significant margins and resources involve the potential for achieving profit margins at a high-enough level that the work of starting the venture (including the entrepreneur's time and energy) is worth the risks involved. If the operating costs are too high and the profit margin is too low, it is important to analyze whether the idea is truly feasible. Significant margins also include the capital requirements—how much money is needed to start the venture—as well as the technical requirements, the complexity of the distribution system, and similar resources.

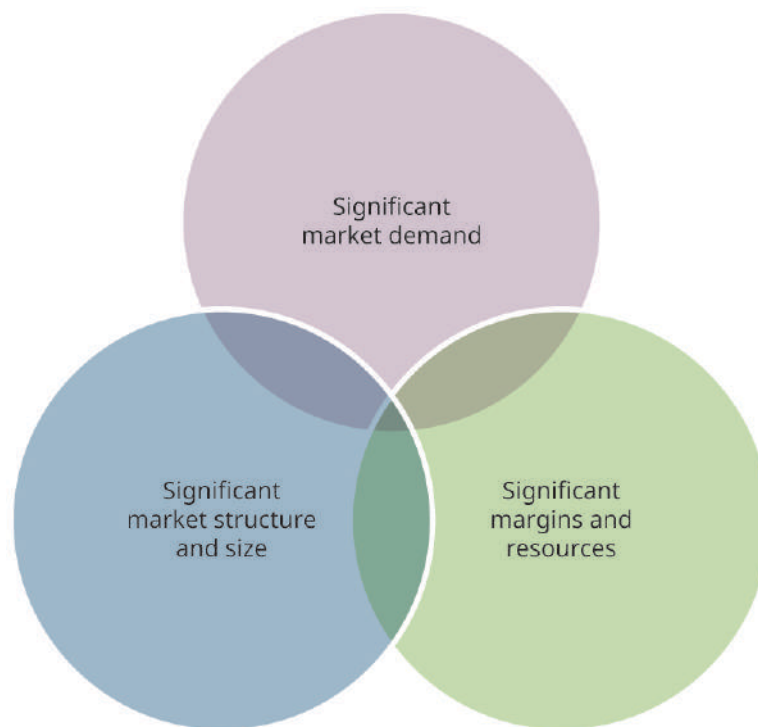


Figure 5.4 When these criteria are met, an idea is recognized as an opportunity. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Determining whether an idea has significant market demand, significant market structure and size, and significant margins and resources to support the venture's success represents the most basic concerns when screening a business idea as an entrepreneurial opportunity.

Keep in mind that these three criteria are based partially on creating a for-profit venture. If your entrepreneurial venture is focused on solving a societal problem, you want to know that the identified problem is realistic and that there is a need for solving it. In a for-profit venture, significant market structure and margins relate to the expectation that the venture will have significant sales with significant profit margins to sustain and grow. There are also examples of profitable entrepreneurial ventures, like YouTube, that did not have any sales, but there was still an expectation that harvesting or selling YouTube would result in a significant profit for the entrepreneurial team. You can read more about Google's purchase of YouTube at <https://www.theringer.com/2016/10/10/16042354/google-youtube-acquisition-10-years-tech-deals-69fdb1c8a06>.

After confirming that a business idea is an entrepreneurial opportunity, the entrepreneur should ask more detailed questions in the next phase of screening the business. Here are some examples:

- Would other people value your product or service?
- Does your product or service solve a significant problem?
- Is the market for the product definable/specific?
- Does the market have unique needs or expectations that align with your entrepreneurial opportunity?
- Is the timing right to start the venture?
- Are there infrastructure or supporting resources that need to be commercialized or created prior to your launch of the venture?
- What resources are needed to start the venture?

- What is the competitive advantage your venture offers within the industry and is this competitive advantage sustainable?
- What is the timeline between starting the venture and the first sale?
- How long before the venture becomes profitable and do you have the resources to support this timeline?

A good starting point in your opportunity screening research is to begin learning about the demographics of the market you are targeting (your target market). **Demographics** are statistical factors of a population, such as race, age, and gender.

The government collects census data demographics,^[14] which can provide a snapshot of the population in your city or town. Census data include the total population, a breakdown of the population by age, gender, race, and income, and some other useful data.

LINK TO LEARNING

The [US Census website \(https://openstax.org/l/52USCensus\)](https://openstax.org/l/52USCensus) and your [local chamber of commerce \(https://openstax.org/l/52ChamberComm\)](https://openstax.org/l/52ChamberComm) can help you learn more about the demographics of your target market or region.

For example, if you were considering opening a new ice cream store with unique flavors preferred by children, census data could tell you the number of children living in the area, the ratio of boys to girls, their ages, and the general income levels of the families in town. The census data would help you determine the size of the market and potential target market, local market growth, income levels, and key demographics that might fit the potential customer profile. Of course, there is other information you might want to collect, such as the percentage of the population that had lactose intolerance. If you found that a significant portion of your market was lactose intolerant, this could be your identified opportunity: You could create a lactose-free ice cream store or expand with a variety of lactose-free flavors. The census data also help identify where to locate your entrepreneurial venture. For example, if your lactose-free ice cream was expensive because of the necessary ingredients, you would not want to open your store in a low-income area.

There is a vast amount of data and information available through the Internet that can support your success in making informed decisions as you explore the feasibility of opening a successful venture. Or you can purchase more detailed consumer data through providers such as Claritas Research, which gathers information on demographics, consumer lifestyles, attitudes, and behaviors (<https://claritas360.claritas.com/mybestsegments/?ID=70>). For many small business startups that cannot afford sophisticated research data, the entrepreneur will probably have to rely on census data along with information that the local economic development council is able to provide.

14 United States Census Bureau. <https://www.census.gov/>

WORK IT OUT

T-Shirt Startup

Create your own t-shirt line to target your classmates.

- What would be the theme?
- How much would you charge?
- Where would you sell the shirts?
- What are the expected sales of the business?
- What are the resources needed to get started?

After analyzing demographic data, the entrepreneur can then develop and conduct some basic research, which could range from observing customers to shopping at potential competitors. Entrepreneurs can also uncover business opportunities by asking questions of, and listening to, their customers, if they are working within the industry or looking for new entrepreneurial opportunities with a similar target market. Sometimes an easy and inexpensive customer survey can uncover problems and opportunities. Entrepreneurs can also gather information using their social media accounts and customer sales records.

For example, imagine a men's clothing store in Denver that maintained a detailed customer database that they used primarily to order the colors and sizes their customers were most likely to purchase. A marketing consultant begins researching customer data and finds a number of former customers who had not shopped at the store for a year or more. The consultant uncovers some lapses in service that had cost the store thousands of dollars in sales. Store management, working with the information from the consultant, develops a direct marketing campaign that helps bring back former customers and adds new customers, resulting in a substantial sales increase.

The lesson here is that research is important at all stages of the business—before you start your business and consistently thereafter. Markets change as new people move in or out of an area, styles and preferences change over time, and new technology can radically impact what customers want to buy. We all know of businesses like Blockbuster or Xerox that ignored evolving technology, to the detriment of their success. Constantly tracking changes in the external environment and competitive arena is an ongoing activity that supports the continued success of the venture.

A popular tool for market analysis is a product from Claritas Research called Potential Rating Index for Zip Markets (PRIZM), which characterizes census data according to certain lifestyle traits, even down to the neighborhood level. As an example, let's see how PRIZM can help us better understand the consumer market of a small town in Massachusetts. Oxford, Massachusetts (zip code 01540), has a population of 11,653, with slightly more half being female; a median income of \$70,444; and a median age of 42.3 years. PRIZM data give us a better understanding of consumers than census data do in Oxford by examining the five dominant lifestyle segments from within PRIZM's sixty-six segments. The PRIZM segments are based on socioeconomic rank determined by characteristics such as income, education, occupation, and home value. A thorough analysis of available data could suggest the most likely products and sources consumers in this zip code market would likely purchase.

Entrepreneurs might also obtain data from economic development agencies, the local chamber of commerce, the state small business development center, or industry associations. Of course, lots of data can be found

with a good search on your computer. Your university reference librarian can tell you what resources they have available and which resources would best fit your research question(s) and area of focus for your idea.

ENTREPRENEUR IN ACTION

Elon Musk's SpaceX

There have been many instances in which products have been promised but fail in their implementation. Space travel—think Elon Musk's venture SpaceX (Figure 5.5)—is an example of a bold concept that is still in the feasibility phase. Is it even possible to send humans to Mars? This is an extreme but interesting example for considering product feasibility.

Another application of the SpaceX technology is to develop satellite-based Internet access that can provide service to billions of people who do not already have Internet service.^[15] However, the project will require new satellite networks, and it may take twenty years to fully develop.

- What short-term and long-term considerations are necessary in the project?
- As the concept will take twenty years of satellite development, how can technological changes be incorporated into the development of the idea?
- Given the description of an entrepreneurial opportunity, does this idea fit that definition?



Figure 5.5 SpaceX operations are centered in these headquarters. (credit: "Iridium-4 Mission (25557986177)" by Official SpaceX Photos/Wikimedia Commons, CC0 1.0)

What should you do if your idea does not fit these criteria—significant market demand, market structure and size, and margins and resources—and your passion to develop the idea into an opportunity and new venture is still strong? This is also part of the entrepreneurial process. You, as the lead entrepreneur, are charged with the task of identifying the obstacles to turning your idea into an opportunity and what actions are necessary to overcome these. This could mean adjusting the idea, adding new features, or even removing some features. Adding new features should focus on increasing the value or benefit offered by the product or service, or

15 Aaron Pressman. "Elon Musk's SpaceX May Fuel \$1 Trillion Space Business Boom." *Fortune*. October 12, 2017. <http://fortune.com/2017/10/12/elon-musk-spacex-morgan-stanley/>

creating a tighter alignment with the needs of the target market. Removing features could decrease the production costs or even the complexity in using the product.

As part of your research to verify whether your idea is truly an entrepreneurial opportunity, researching your state's laws and regulations is essential. Conduct an Internet search for your state's business regulations applicable to your business. You will need to comply with these laws, as well as purchase any licenses and permits necessary for your business. You should also check with your local or county government for additional local regulations, including zoning and signage laws. Remember that laws vary by state, so what is legal in one state may not be legal in another, or there might be stricter regulations. For emerging industries, the regulations and laws can fluctuate as industries evolve. This is especially true for emerging industries such as the sale and distribution of medical marijuana.

ARE YOU READY?

Getting a License or Permit to Start a Business

When starting a business, be sure that you have all the required licenses and permits, keeping in mind that you may need licenses from federal, state, county, and local government agencies. You can start with the SBA website at <https://www.sba.gov/business-guide/launch-your-business/apply-licenses-permits#section-header-0>. Another helpful resource is Fundera, an online financial resource that provides information about obtaining business licenses in all fifty states and links to essential government organizations for each state: <https://www.fundera.com/blog/business-license>. And try [nav.com](https://www.nav.com/blog/266-business-licensing-by-state-5008/) as well: <https://www.nav.com/blog/266-business-licensing-by-state-5008/>.

States regulate a larger number of business activities than the federal government. Business activities that are regulated locally include auctions, construction, dry cleaning, farming, plumbing, restaurants, retail, and vending.

- Select a business in a regulated industry and research what would be needed to start the venture in a specific locale.

Many estimates indicate that half of all new businesses will no longer exist within the first five years, but good research can help you avoid your business becoming a statistic.^[16] On the surface, this fact can be daunting. However, there are many reasons why a business no longer exists that can reflect a positive outcome, such as the sale of a business or a merger with another business. Another example is when an entrepreneur intentionally starts a venture knowing that there is a short-term timeline for success, with the expectation that new technology will replace the gap that the venture originally filled. Most entrepreneurs are not big risk-takers but understand that there are no guarantees in starting a new business venture. Instead, entrepreneurs tend to take calculated business risks based on the best research they can gather. At some point, however, the entrepreneur recognizes that despite all the good research they have gathered, they still need to take a leap of faith when starting their new venture.

16 US Small Business Administration Office of Advocacy. *Frequently Asked Questions about Small Business*. August 2018. <https://www.sba.gov/sites/default/files/advocacy/Frequently-Asked-Questions-Small-Business-2018.pdf>

WHAT CAN YOU DO?

Why Small Businesses Fail

Why do half or more of new small businesses no longer exist after the first five years? In many cases, it is failure of the business. The Small Business Institute at Thomas College in Maine has cited factors in [Table 5.1](#) as the most common reasons for small business failures. Many business development agencies have compiled similar lists.

Ten Reasons for Small Business Failure

Reason	Description
Low sales	Entrepreneurs may have overestimated sales, assuming they could take sales away from established competitors.
Lack of experience	Running a business is hard, and a new business can be especially challenging, as it is difficult to prepare adequately for the unexpected.
Insufficient capital	When calculating how much money you will need to start your new business venture, be sure to account for the time it will take before your business breaks even and be sure also to allow for some contingency funds for when the unexpected happens.
Poor location	For some types of businesses, location is critical. Of course, location may be less important for a home-based business and not at all important for an Internet business.
Poor inventory management	Too much inventory results in the business becoming cash-strapped and unable to buy advertising or other important goods and services.
Overinvestment in fixed assets	Especially when starting a business, it is usually less expensive to lease or purchase used equipment, thereby saving cash for meeting operational expenses.
Poor credit arrangement management	Start your venture small and limit the amount of money you need to borrow. Work with your banker from the beginning by sharing your business plan and vision for the business with the banker and, most important, show that you are proactive in planning for when you will need to borrow money.

Table 5.1 Understanding some of the factors that lead to business failure can help you be aware of those as you research your idea and opportunity.

Ten Reasons for Small Business Failure

Reason	Description
Personal use of business funds	The owner should pay him/herself a minimal salary and not dip into business funds. If the business has done well, the owner will earn additional funds at the end of the year.
Unexpected growth	Surprisingly, some businesses fail because the business owner cannot manage growth. Growing a new venture, especially if the growth is at a higher rate than expected, can create surprising challenges. For example, if creating a product, you need to consider the capacity of the factory where you are producing the product. If you are at 100 percent capacity and your orders increase, you will need to think about what actions can support this increase in demand. If you cannot meet the demand, you will have unhappy customers and negative publicity that will reflect negatively on your leadership and managerial skills. Your lack of planning for this surge in sales may open opportunities for someone else to start a competing business.
Competition	Many small business owners underestimate their competition. Remember, if there is money to be made, there will be competition! Larger competitors can beat you every day of the week on price, so find another way to challenge competitors.

Table 5.1 Understanding some of the factors that lead to business failure can help you be aware of those as you research your idea and opportunity.

- Given the preceding reasons for small business failure, what can be done to head off such failure?
- Why is it necessary to assemble a team of professional advisors to address financial, personnel, legal, accounting, and other business issues?
- Why is it vital to identify suppliers and personnel to be able to provide a product or service?
- What factors are important when considering whether a product should be manufactured internally or outsourced to a third party?

Let us analyze, as an example, opportunity recognition displayed by a company called Sweet Beginnings. Eddie Griffin, Kevin Greenwood, and Tiffany Chen were all residents of Chicago who were seeking jobs and a fresh start on life after serving time in prison. They wanted a chance to rebuild their lives and the ability to support themselves financially. Unfortunately, the odds were against them in their North Lawndale community: There was a 40 percent unemployment rate, 57 percent of residents had criminal histories, the average annual income was only \$25,000, and the area was known for drugs, sex workers, and gangs. Statistically, they were destined to return to the criminal justice system.

But fate intervened in the form of Brenda Palms Barber, who knew all of these statistics. Palms Barber was the Executive Director of the North Lawndale Employment Network (LEN). When employers refused to hire Griffin, Greenwood, and Chen, whom she had coached, she researched what it would take to open various businesses,

including a temp agency, a landscaping company, and a delivery service, with the intent to offer employment to LEN clients. A recommendation from a board member's connection led her to consider, of all things, raising bees. It was not until she learned that the ins and outs of the apiary profession are passed on by word of mouth that she felt it was ideal for her clients who often faced learning challenges due to limited academic experience.

In 2005, Palms Barber founded Sweet Beginnings, a social enterprise that employs former inmates and teaches them job skills by running an apiary business directly in the heart of North Lawndale. The Sweet Beginnings brand, Bee Love (shown in [Figure 5.6](#)), sells honey and honey-infused skincare products in airports, hotels, and supermarkets, including Whole Foods. Palms Barber recognized that the skills her potential employees learned in the streets were transferrable to running and managing the business.^{[17],[18],[19]}



Figure 5.6 Bee Love products are part of a social entrepreneurship venture. Founder Palms Barber researched the opportunity carefully and has found success. (credit: "Bee Love" by Alisha McCarthy/Flickr, CC BY 4.0)

Palms Barber also realized that a product gap existed between customer needs and products offered. She identified the niche market of customers who wanted all-natural skin care products and liked the idea of purchasing them from a social enterprise. Bee Love positioned itself for success as an appealing, high-end natural product to environmentally conscious consumers willing to pay a premium for it.

Palms Barber recognized an opportunity when she identified the societal problem of employment for people who had experienced incarceration. In seeking solutions to this problem, she encountered roadblocks from employers' resistance to hiring ex-prison inmates. She then researched other possible solutions including business startups. The idea of raising bees at first seemed an unusual solution to the problem of employment for her unique clients. In her due diligence, she identified a gap between customer preferences for all-natural skin care products and currently available offerings. Combining these ideas resulted in the opening of Bee Love. The fits between the clientele of ex-inmates, apiary, and skin care products supported the opening of this unique venture. Exploring the gaps was part of the process of finding the right solution and realizing that the idea of starting a business to support ex-inmates was an actual opportunity worth developing into a new venture.

17 "Sweet Beginnings." *North Lawndale Employment Network*. n.d. <https://www.nlen.org/sweetbeginnings>

18 BeeLove. www.beelovebuzz.com

19 Leigh Buchanan. "Finding Jobs for Ex-Offenders." *Inc.* May 2011. <https://www.inc.com/magazine/20110501/social-entrepreneurs-finding-jobs-for-ex-offenders.html>

Industry Sources of Opportunity

Your research process should include learning everything you can about the industry you plan to enter. This will help you to identify opportunities. An excellent source for industry information is the business reference section of your college library. Industry averages are available in reference books and can also be found at Dun & Bradstreet/Hoovers (<http://www.hoovers.com/industry-analysis.html>). The industry analysis contains important information including a brief description of the industry and its characteristics, the competitive landscape, along with products, operations, and technology.

Industry sources reveal knowledge about a specific industry from the perspective of identifying unmet needs or areas for improvement within that industry. For example, Airbnb reshaped the hotel industry by connecting travelers with property owners, so that the travelers could rent the property when the owner was not using it. As Airbnb has grown, the company has made improvements to their offerings in meeting the needs of the traveler's demand based on property location and in categorizing the supply (the homeowner's property) for increased efficiency, meeting the needs of both the property owner and the traveler. Researching specific industries from supply and demand perspectives, and noticing unused supplies, as we saw in the Airbnb example, also applies to other industries, such as a sandwich shop. What happens to the unsold bread at the end of the day when there is an excess supply? For Stacy Madison and her pita sandwich food cart, unsold bread presented an opportunity to create pita chips by turning an oversupply into sliced and seasoned pita chips.^[20]

Almost every industry is worth investigating from the perspective of identifying unused resources or extra resources that could be restructured for what are known as a *shared economy* or a *gig economy*. A **shared economy** considers that there are times when an asset is not in use. This down time when the asset is not in use provides an opening for someone else to use that asset, like Airbnb. Other companies, like Uber, Lyft, DoorDash, and Postmates, support the gig economy in aligning a person's choices for when they want to work with the flow of the work demand. A **gig economy** is an open or fluid market system with temporary positions made up of independent short-term workers. In these examples, we can see the alignment of supply and demand. The entrepreneurial opportunity happens in providing a platform to assist in connecting the supply and demand.

The tech sector, for example, is continually adapting to change. Items such as 3D printers and mobile devices are making the technology landscape expand. As new products come to market, the need for applications and increased efficiency abound. Several other industries are experiencing growth, including health care and nutrition. According to Global Market Insights (2019), the clinical nutrition market will exceed \$87,530.7 million dollars by 2025.^[21] This same source reported that this industry was valued at over \$10,562.7 million in 2018, a significant increase over the previous seven years. Drivers in this industry include sedentary lifestyles and related health issues, such as obesity. The result of these societal changes is an increase in clinical nutrition products and home healthcare services. According to business management author, professor, and corporate consultant, Peter Drucker, entrepreneurs excel at finding and developing potential business opportunities created by social, technological, and cultural changes.

20 "Stacy's Pita Chips: Stacy Madison." *How I Built This with Guy Raz*. National Public Radio (NPR). May 27, 2019. <https://www.npr.org/2019/05/24/726755480/stacys-pita-chips-stacy-madison>

21 Global Market Insights. "The Clinical Nutrition Market to Surpass \$87,530.7 Million by 2025: Global Market Insights, Inc." *Cision PR Newswire*. March 5, 2019. <https://www.prnewswire.com/news-releases/the-clinical-nutrition-market-to-surpass-87-530-7-million-by-2025-global-market-insights-inc-300806622.html>

Consumer Sources of Opportunity

Consumer sources of opportunities relate to changes in our society, such as new habits or behaviors brought about by exposure to new information. For example, most people feel the pressure related to having less free or unrestricted time. [Figure 5.7](#) tracks the average number of hours worked by country per worker per year.

AVERAGE ANNUAL HOURS WORKED	
Country	Annual Hours
Mexico	2,246
South Korea	2,113
Greece	2,042
Chile	1,988
Russia	1,978
Turkey	1,832
United States	1,779
Italy	1,725
Japan	1,719
Canada	1,691
Spain	1,676
United Kingdom	1,674
Australia	1,665
France	1,482
Germany	1,371

Source: Niall McCarthy. "Who Works the Most Hours Every Year?" *Forbes*. January 8, 2018. Based on information from Statista and data from The Organization for Economic Co-Operation and Development (OECD).

Figure 5.7 This graph compares average annual hours worked by country. It does not distinguish between full-time and part-time employment. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The International Labour Organization and Bureau of Labor Statistics report that most people in the United States work more than forty hours per week, work significantly more hours per year than workers in many other countries, and are vastly more productive than they were half a century ago.^[22]

Another consideration is tracking where our time is spent during commuting. The average commute time in major cities in the United States is twenty-six minutes, ranging from thirty-eight minutes in New York City to the shortest commute time of twenty minutes in Buffalo, New York.^[23] When we add in commute times, work hours, and other required activities like sleeping and eating, we find that people struggle to find time for relaxation and personal activities. This large trend leads to recognizing that our working population in the United States and other countries would value novel approaches to completing tasks and making life simpler. For instance, several businesses have looked at making life easier and saving the consumer time, such as

22 G.E. Miller. "The US Is the Most Overworked Developed Nation in the World." *20SomethingFinance*. January 2, 2018. <https://20somethingfinance.com/american-hours-worked-productivity-vacation/>

23 Jeff Desjardins. "Visualizing the Average Commute Time in US States and Cities." *Visual Capitalist*. April 1, 2018. <https://www.visualcapitalist.com/average-commute-u-s-states-cities/>

Amazon's One-Click-Checkout, grocery delivery, and product recommendations. Other examples include mobile businesses like pet grooming that come to your home, or diaper delivery services that pick up used diapers, wash and dry them, and return clean diapers to your home. Understanding consumer needs and problems opens the possibility of creating a business that addresses those needs or problems.

Another consumer trend is the demand for affordable housing. One solution involves offering more affordable “tiny homes” that make home ownership more accessible (Figure 5.8).^[24] As one entrepreneurial opportunity materializes into a new product, spin-off ideas may also arise. The tiny home concept attracted the attention of groups that assist homeless veterans. The Veterans Community Project in Kansas City, has developed a community of forty-nine tiny homes for homeless veterans and the project is so successful that more than 500 cities around the country are building tiny home housing projects for veterans there.^[25]



Figure 5.8 These tiny homes cost as little as \$10,000 to build and come complete with one or two bedrooms, a small kitchen, and bath. (credit: photo provided by Veterans Community Project)

ENTREPRENEUR IN ACTION

Vestergaard

Vestergaard has a mission to prevent diseases, especially for vulnerable populations around the world, and to contribute to a healthier and more sustainable planet through good actions.

LifeStraw is a product that Vestergaard launched in 2005, making water safe to drink in areas where clean water is not readily available and redefining beliefs around safe drinking water. LifeStraw uses a combination of a hollow fiber membrane, a filtration process, and in some products, a second filtration process to remove chemicals like chlorine, lead, and pesticides.

24 Linda Federico-O'Murchu. "Tiny Houses: A Big Idea to End Homelessness." *NBC News*. February 26, 2014. <https://www.nbcnews.com/business/real-estate/tiny-houses-big-idea-end-homelessness-n39316>

25 Lauren Stewart. "Community Is Building Tiny Homes for Homeless Veterans in 500 Different Cities." *Do You Remember?* 2018. <https://doyouremember.com/87151/community-builds-tiny-homes-for-homeless-veterans>

- Apply the concepts of supply and demand in describing LifeStraw from the perspective of an entrepreneurial opportunity.
- What are three drivers that support the creation of LifeStraw?

5.3 Competitive Analysis

Learning Objectives

By the end of this section, you will be able to:

- Understand the elements of a competitive analysis
- Describe tools you can use to refine and focus your planning (three circles, SWOT, PEST)
- Recognize social media's role in saving time and money on research
- Understand how a business model helps determine the feasibility of an opportunity

Conducting a competitive analysis helps you focus your idea and identify your unique selling proposition and competitive advantage.

Competitive Analysis

A competitive analysis should provide the entrepreneur with information about how competitors market their business and ways to penetrate the market by entry through product or service gaps in areas that your competitors do not serve or do not serve well. More importantly, competitive analysis helps the entrepreneur develop a competitive edge that will help create a sustainable revenue stream. For example, a big company like Walmart primarily competes on price. Small companies typically cannot compete on price, since the internal efficiencies and volume sales available to large corporations like Walmart are not available to small companies, but they may be able to compete successfully against Walmart on some other important variable such as better service, better-quality products, or unique buying experiences.

When preparing the competitive analysis, be sure to identify your competitors by product line or service segment. For an entrepreneur, this activity can be difficult when the industry does not yet exist. In the case of Bee Love, Palms Barber didn't have direct competitors, but she did have related competitors of traditional skin care products. Her unique idea of all-natural, honey-based skin care products created a new market. The competitive analysis might need to focus on substitute products rather than direct competitors. There are two main tools used in analysis of competitors: a competitive analysis grid and the "three circles" approach.

Competitive Analysis Grid

The competitive analysis grid should identify your competitors and include an assessment of the key characteristics of the competitive landscape in your industry, including competitive strengths and weaknesses and key success factors.

[Table 5.2](#) provides an example of what a competitive analysis might look like for a bicycle shop in a tourist locale.

Competitive Analysis Grid for Sid's Cycle Shop in Branson, Missouri

Key Characteristics	Sid's Cycle	City Cycle	SpokeMasters	Target
Strengths	Product knowledge, Repair service	Repair service	High quality, Top brands	Price, hours (open seven days per week and online)
Weaknesses	Limited selection	Poor customer service	Pricing, no entry-level products	Low-end quality, no repair facilities
Product Quality Level	Low-middle	Middle-high	High-end	Entry-level
Price Point	Middle	Middle-high	High price	Lowest price
Location of the business	Suburban strip-mall on busy highway	Outskirts of town on route 280	Downtown side street	Branson Mall
Promotion	Weekly ad in local newspaper, some radio and Internet/ social media	Advertising in local paper during season, Internet/ social media	Sponsors major bike race in area, Internet, social media	Advertises online and in Sunday newspaper (seasonally), Internet)

Table 5.2 This competitive analysis grid captures some of the main aspects of competitors within a given market.

As you complete an analysis for your venture's competitors, identify what contributes to the competitor's success. In other words, why do people purchase from the company? Some possible reasons include no nearby competitors, lower prices than competitors, a wider variety of products, offering services not offered elsewhere, or branding and marketing that appeals to the target market. Your analysis should inform you of a combination of key success factors within the industry (what it takes to be successful in the industry) and of what your competitors are not offering that is valued by your target market.

Another frequently used tool is a **SWOT analysis** (strengths, weaknesses, opportunities, and threats), which focuses on analyzing your venture's potential and builds on the knowledge gained from the competitive analysis grid and the three circles. You will need to identify the strengths your venture will need to support the competitive advantage identified through the competitive analysis tools. The weaknesses can be identified based on your current and foreseeable expectations. For a new venture, the opportunities and threats sections are based on current factors in the external environment that come from your research. In this context, opportunities are facts, changes, or situations within the external environment that could be favorably leveraged for the venture's success.

WORK IT OUT

Using SWOT Analysis to Evaluate Entrepreneurial Opportunity



Figure 5.9 A SWOT analysis can be used to identify the strengths, weaknesses, opportunities, and threats of a potential entrepreneurial opportunity. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

One way to evaluate a business idea is to prepare a SWOT analysis ([Figure 5.9](#)). Note that strengths and weaknesses are internal to the entrepreneur, while opportunities and threats are external factors. Strengths are capabilities and advantages of the entrepreneur, including education, experience, and personal or professional contacts. Weaknesses are disadvantages of the entrepreneur, which could include lack of knowledge or experience. Opportunities are positive events that the entrepreneur can develop to his or her benefit. This could include development of new technologies, changes in consumer tastes and preferences, market growth, and new laws and regulations. Threats can be anything that could potentially harm the business or prevent the business from becoming successful such as competition, negative changes in economic conditions, and new laws or regulations.

- If you were starting a new business venture, what strengths would you be able to leverage to help your business be successful?
- Provide some examples of personal or professional weaknesses an entrepreneur might face when

starting a new business.

- Discuss three occurring events such as new laws and regulations, changes in consumer tastes and preferences, or developing new technologies that could provide business opportunity for a new business venture.

Another tool that can be used to analyze opportunities and threats section is called PEST analysis (political, economic, societal, technology). In this analysis, we identify issues in each of these categories. [Figure 5.10](#) shows an example of the topics that could be placed in a PEST analysis. The chapter on [Fundamentals of Resource Planning](#) discusses this tool as it relates to resource procurement.

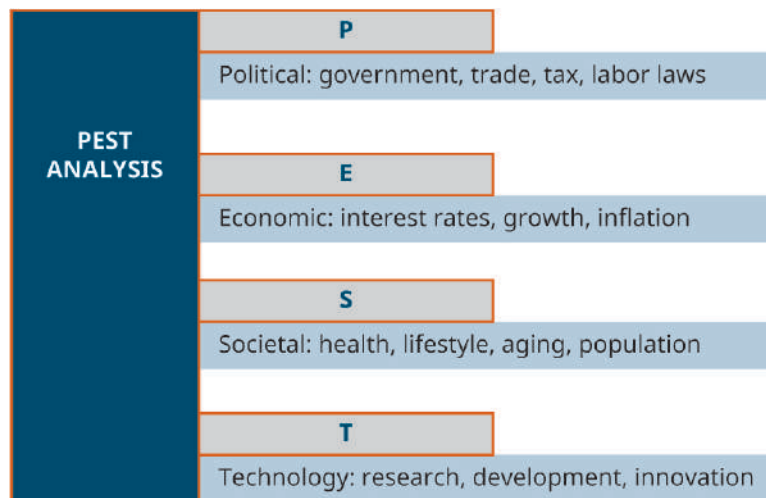


Figure 5.10 A PEST analysis can help identify opportunities and threats that can be used in a SWOT analysis. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Each of these categories should be completed with relevant facts related to your entrepreneurial opportunity. After completing this analysis, you then determine if these facts, or factors, would be placed in the opportunity section or the threat section of the SWOT.

Three Circles Tool

Another tool that can be used in competitive analysis is the three circles tool ([Figure 5.11](#)). The goal is to identify competitors' strengths and competitive advantages with any overlaps among competitors. Then, you would identify values or features not offered by competitors. This gap in value or offered services helps to identify your **unique selling proposition** and thereby your competitive advantage.

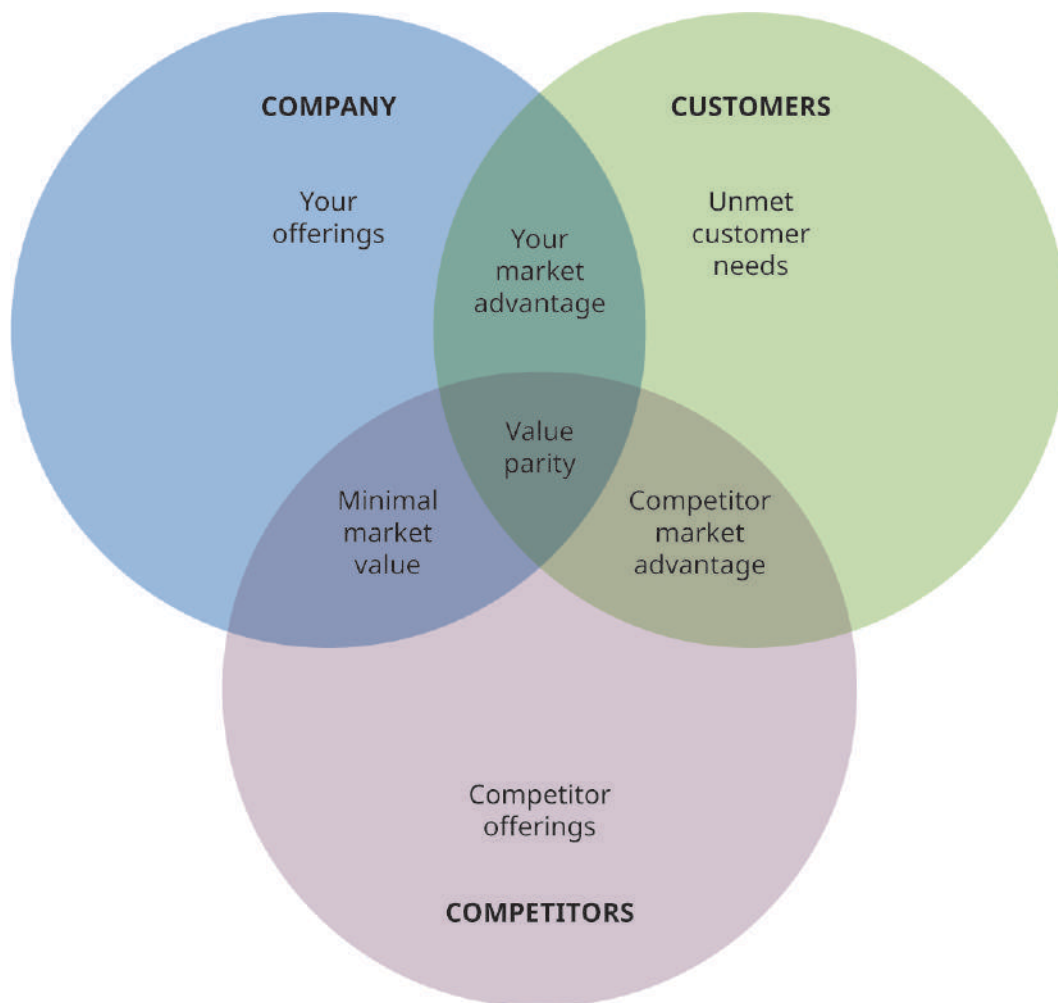


Figure 5.11 The three circles competitive analysis helps to identify where there is overlap and where there may be a gap in the market that a new venture could fill. The overlaps identify points of parity, the areas where competitors offer the same value with the important identification of the areas of unmet customer needs and how unique your competitive advantage is within the industry. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The unique selling proposition is important to the marketing plan and is often used as a slogan. It should also align with the value communicated by the product or company brand. These concepts are different from your venture's competitive advantage; the **competitive advantage** describes your venture's unique benefit, which supports growth of the venture, whereas the unique selling proposition describes the product or service itself, rather than the venture. Although these concepts are different, there should be alignment between the concepts.

For example, Amazon has a competitive advantage in its virtual presence, knowledge of the market, knowledge and application of technology, and knowledge of the industry. Through these competitive advantages, Amazon offers unique combinations of benefits to their customers, such as one-click checkout and algorithm-based recommendations using data mining to track an individual customer's preferences. Amazon's unique selling proposition becomes making the purchase as easy and as accurate as possible, whereas their competitive advantage lies in their ability to foresee future advances and act on those

predictions, even to the point of shaping the industry.

The competitive advantage results from the analysis of the strengths and unique aspects of a venture, an analysis of the industry, including competitor's advantages, customer needs, and what the venture provides within this competitive landscape. The unique selling proposition should support the competitive advantage, just as the competitive advantage needs to support the unique selling proposition.

Social Media's Role in Research

For almost all new business ventures, two key issues related to research are time and money. Large-scale research projects can take months or longer, and cost a significant amount of money. Social media can offer some opportunities to overcome these concerns. Ray Nelson, writing for *Social Media Today*, reports several ways that social media can provide speedy, low-cost market research: tracking trends in real-time, helping the entrepreneur "learn the language" of their potential customers, discovering unnoticed trends by engaging consumers, and performing market research using a very cost-efficient means.^[26] If the entrepreneur can perform social media research on his or her own, the cost will primarily be in terms of time. But the time it will take to conduct research through social media platforms such as Facebook or Twitter is usually well spent. This research should include learning the unique selling proposition of competitors, understanding their competitive advantage, and identifying what the customer values, which can be rather difficult. For example, before Amazon recognized that people are busy, were we aware that we wanted faster check-out processes for making purchases? Or were we aware that we wanted the package delivered to our home to be easier to unwrap? And yet, if we asked Amazon shoppers what they value in shopping at Amazon, we will receive answers that support an easier and faster process.

Another technique would be to read through customer reviews on Amazon (or another company related to your entrepreneurial venture) to find out what customers like and don't like about existing products and brands. You can also develop your own surveys on an app like SurveyMonkey and send them to customers and prospective customers. This usually works when sent to persons who have a strong interest in the product or issue rather than randomly sending out surveys.

Business Models and Feasibility

Part of the analysis in determining if your idea is an actual entrepreneurial opportunity is identifying a feasible business model. A **business model** is a plan for how the venture will be funded; how the venture creates value for its stakeholders, including customers; how the venture's offerings are made and distributed to the end users; and how income will be generated through this process. Basically, a business model describes how a venture will create a profit by describing each of these actions. The business model at this stage is composed of four components: the offering, customers, infrastructure, and financial viability ([Figure 5.12](#)). A fuller version of the business model is covered in [Business Model and Plan](#).

26 Ray Nelson. "How to Use Social Media for Market Research." *Social Media Today*. March 19, 2013. <https://www.socialmediatoday.com/content/how-use-social-media-market-research>

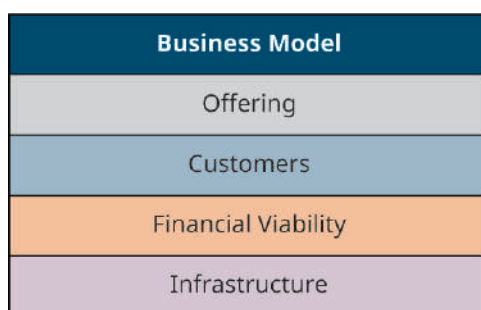


Figure 5.12 A business model has four components: the offering, customers, infrastructure, and financial viability. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The **offering** refers to the product or service you will be selling, the value proposition, and how you will reach and communicate with your target customers. The customer value proposition includes a detailed description of the products and services you will offer to customers, and what benefits (value) the customer will derive from using your product or service. The customer benefit could be the ability to do something more easily, more quickly, or at a lower cost than customers could before. The benefit could also solve a problem no one else has solved.

ARE YOU READY?

Writing a Customer Value Proposition

It is helpful to write out your customer value proposition. Then you have a draft to review and tweak as your ideas develop. Here is a general structure you can follow:^[27]

- Start with a headline-style statement that describes how your offering benefits the customer.
- Provide a few sentences or a brief paragraph that explains the offering in more detail. Be sure to make clear what the offering is, who the customer is, and why you are offering it.
- Consider including a bulleted list or checklist highlighting 3–5 features of the product or benefits the customer will receive.
- If possible, add a graphic that engages interest or reinforces the idea.

Customers are the people you will be serving, including potential customers from one or more market segments, or subsections of the market categorized by similar interests or needs. Products seldom appeal to everyone, so the entrepreneur needs to determine, through high-level segmentation and targeting analysis, which segments of the market would make the most sense for the business, and the market environment and dynamics. Some products might appeal to market segments based on age or income, whereas other products might appeal to customers based on their lifestyle. A sign of a potential market opportunity is when a certain market is experiencing rapid growth. This could be a city with a fast-growing population, or it could be a style or consumer trend that is really taking off. The chapter on [Entrepreneurial Marketing and Sales](#) goes into more detail about these topics.

Infrastructure refers to all the resources the entrepreneur will need to launch and sustain the business

27 Modified from Lindsay Kolowich. "How to Write a Great Value Proposition [Infographic]." HubSpot/Marketing. June 5, 2018. <https://blog.hubspot.com/marketing/write-value-proposition>

venture. These include people, products, facilities, technology, suppliers, partners, and finances, all of which the entrepreneur must have to fulfill the customer value proposition.

Financial viability relates to the long-term financial sustainability of an organization to fulfill its mission. This goes back to our definition of an entrepreneurial opportunity. Knowing that the venture solves a sizable and significant problem that the target market is willing to purchase is a key piece in determining financial viability. This category also addresses how the venture will create profits.

For example, would a subscription-based business model fit the target market and venture's success? Currently, we see a significant growth in startups offering subscription services. What are the benefits to this sales method? For the venture, this model increases upfront cash to support the growth of the venture, especially when customers pay a year in advance for products that will be delivered over the subsequent twelve months. Receiving the payment prior to completing the sales provides the venture with operating cash to support current and future growth. The benefit to the customer in this situation is fewer transactions. The customer knows that the payment covers the next twelve months' worth of benefits (the received product or service) with no further purchases until the subscription runs out.

Another choice involves deciding whether to have a physical location, a virtual location, or both. Financial viability means exploring the benefits and drawbacks of various methods in creating your business model.

WORK IT OUT

Researching Target Markets with Census Data

Practice conducting research by going to www.census.gov and two other sources to identify a specific target market for a product that interests you. Include the target market's:

- Disposable income. You might ask whether the target market has sufficient disposable income to purchase this product.
- Demographics
- Psychographics (the combination of buying personality behaviors and demographics)
- How you as the entrepreneur could reach this target market.

When you have a business idea that you have been researching and find that there is a large enough market that has a need that your idea meets, that this target market has the willingness and ability to satisfy the need through purchasing the provided solution, that you have access to the necessary resources to build an infrastructure for your business, that you have the right mix of products and services with a sound value proposition, and that you can secure funding, you have a real opportunity. This chapter has introduced you to all of these concepts. Further chapters delve into them in more depth.



Key Terms

business model plan for how venture will be funded; how the venture creates value for its stakeholders, including customers; how the venture's offerings are made and distributed to the end users; and the how income will be generated through this process

competitive advantage describes your venture's unique benefits that poise it for growth

creative destruction theory developed by Joseph Schumpeter stating that entrepreneurial innovation is the disruptive force that creates and sustains economic growth, though in the process, it destroys established companies and disrupts employment

customers people the business will be serving, including potential customers from one or more market segments

demand need or desire for the outputs, the product or services

demographics statistical factors of a population or group, such as information about age, gender, income, race, or ethnicity

entrepreneurial opportunity point at which identifiable consumer demand meets the feasibility of satisfying the requested product or service and meets the following conditions: significant market demand, significant market structure and size, significant margins, and resources to support the venture's success

financial viability long-term financial sustainability of an organization to fulfill its mission

gig economy market system in which independent contractors fill a variety of positions

infrastructure all resources the entrepreneur will need in order to launch and sustain a business venture

offering actual product or service, its value proposition, and how you will reach and communicate with your target customers

opportunity screening process used to evaluate innovative product ideas, strategies, and marketing trends, focusing on financial resources, skills of the entrepreneurial team, and competition

primary research research that involves gathering new data

secondary research research that uses existing data

shared economy economy in which some assets are not in use, which may present an entrepreneurial opportunity

supply amount of a product or service produced

SWOT analysis strategic analytical tool used to help a potential venture or existing company identify its strengths, weaknesses, opportunities, and threats related to business competition

unique selling proposition marketer's rationale as to why a product or service is different/better than the competitor's products



Summary

5.1 Entrepreneurial Opportunity

Entrepreneurial opportunity exists when consumer demand meets the feasibility of bringing the product or service to market. Joseph Schumpeter, an early scholar of entrepreneurship, identified creative destruction—when innovation is disruptive and creates potential entrepreneurial opportunities. Schumpeter's focus on economics led him to categorize potential opportunities based on supply, demand, or changes in how technology is used.

Burgeoning entrepreneurs should be engaged with industries of interest to remain informed and aware of

opportunities to research. Additionally, they should be attentive to drivers of opportunity, such as emerging funding options, technological advancements, and economic factors.

5.2 Researching Potential Business Opportunities

Researching the viability of your entrepreneurial idea will help you determine whether the venture is currently worth pursuing. Use primary and secondary research to determine whether there is adequate demand, market structure and size, and the needed margins and resources to launch and sustain the enterprise. Entrepreneurs researching options should also be aware of industry and consumer sources of opportunities.

5.3 Competitive Analysis

A competitive analysis helps determine the viability of your idea by considering how feasible it is within a specific competitive landscape. Tools such as a competitive analysis grid, a SWOT analysis, a PEST analysis, and the three circles approach can help you further examine issues and refine your plans.



Review Questions

1. What is entrepreneurial opportunity?
2. What are five methods through which an entrepreneur can create new economic opportunities, according to Joseph Schumpeter?
3. What are some factors that might indicate it is a good time to start a business?
4. When should an entrepreneur explore opportunities?
5. What should a potential entrepreneur research before starting a business?
6. What kind of information is available in census data and how might that data be useful?
7. Compare and contrast supply-based opportunities and demand-based opportunities.
8. How can using a PEST analysis contribute to discovering new patterns of trends for recognizing entrepreneurial opportunities?
9. What is a SWOT analysis and how is it useful?
10. What is a unique selling proposition?
11. What is a business model?



Discussion Questions

1. Explain the difference between an idea and an entrepreneurial opportunity. Why is it important to recognize if your idea is truly an entrepreneurial opportunity or only an idea?
2. Is now a good time to start a business? Why or why not?
3. If you were thinking about starting a clothing store for teens and young women in your hometown, what census information do you think would be useful to you?

4. What new patterns or behaviors have you noticed within your society or the country's society?
5. What unused resources are present in your own life that could be translated into a shared economy idea for a new venture?
6. What spin-off ideas can you think of that support a gig economy? For example, what services or products might gig employees value or gig employers value?
7. What are some of the reasons for business failures? If you were starting a business, what are some actions you could take to increase your potential for success?
8. Many entrepreneurs like Chris Johnson, who invented the ramen noodle cooker and Palms Barber had ordinary problems they were trying to solve. What are some examples of ordinary problems you could solve if you could invent a product?
9. How do social enterprises like Bee Love help the community? What problem was Palms Barber trying to solve? What problems did the company end up solving?



Case Questions

1. Mandy Tillman was a high school student who lived in a rural area of Oklahoma. Mandy was only fourteen years old but wanted to make some extra money for her family's trip to the Grand Canyon the following summer. While shopping with her parents, she noticed there was only one place in town to buy flats with flowers and vegetables for spring planting, and there was not much of a selection. Mandy made a note of the various types of plants and flowers the store sold and how much they sold for.

When Mandy got home from shopping with her parents, she went online to see how much the seeds and equipment would cost. Her parents liked the idea of Mandy earning some money of her own to spend on vacation and made a large area in the basement available for her to start her plants.

- A. What else should Mandy know about this business before getting started?
 - B. What else do you think Mandy needs to start this business?
 - C. Do you see any potential problems with this business idea?
 - D. What are some ways Mandy can sell her plants?
 - E. Is this a business idea or an entrepreneurial opportunity?
2. Research the eyeglass company Warby Parker.
- A. What is Warby Parker's business model?
 - B. What is the value proposition offered by Warby Parker?
 - C. Describe Warby Parker's target market? What resources did you use to identify their target market?
 - D. If Warby Parker did not exist and you decided that you wanted to open a direct to consumer eyeglass company, what would be the top five factors you would research to determine if your idea was truly an entrepreneurial opportunity?

3. Travis and Katelyn loved backpacking and had hiked the Appalachian Trail twice. Although they had been backpacking for several years, each time they went out on the trail, they learned something new. Almost every backpacker they met was quick to offer a good tip on the best clothing or equipment for the trail. Travis and Katelyn decided to start a backpacker's blog and sell advertising space to manufacturers and retailers of backpacking gear.

- A. If you were launching a company to help backpackers trek through the wilderness, what products would you provide and what would be their unique selling propositions?
- B. What benefit would you build into your website that would attract backpackers to your website? Consider how you would distinguish your website from competitor websites.
- C. Using PEST around your knowledge of backpacking and interest in starting a business related to backpacking, identify one fact for each of the PEST categories that could be useful in identifying new information or patterns to support this business.
- D. How would you change your business model based on your answers to the previous question?



Suggested Resources

5.2 Researching Potential Business Opportunities

American Fact Finder (market research): <http://factfinder2.census.gov/main.html>

FedStats (statistics from more than 100 federal agencies): <https://www.usa.gov/statistics>

FindLaw Small Business Center (business forms): <https://smallbusiness.findlaw.com/>

National Federation of Independent Business: <https://www.nfib.com/business-resources>

The Small Business National Center: <https://sites.google.com/a/uca.edu/sbanc/home>

The U.S. Small Business Administration (SBA): www.sba.gov

Top Franchises of 2019: <https://www.entrepreneur.com/franchise500/2019>

U.S. patent and Trademark Office: <https://www.uspto.gov/>

General Business Statistics: <https://www.census.gov/eos/www/naics/>, <http://www.census.gov/library/publications/2011/compendia/statab/131ed.html>

Consumer Statistics: <https://www.federalreserve.gov/releases/G19/>, <https://www.cpsc.gov/Research--Statistics>

Demographics: <https://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml>, <http://www.bls.gov/bls/demographics.htm>

Economic Indicators: <https://www.bls.gov/cpi/>, bea.gov

Employment Statistics: <https://stats.bls.gov/bls/employment.htm>

Income Statistics: <https://www.bls.gov/cps/earnings.htm>, <https://www.bls.gov/data/#employment>

Money and Interest Rates: <https://www.federalreserve.gov/releases/h15/>, <https://www.federalreserve.gov/data.htm>

Production and Sales Statistics: <https://www.bea.gov/data/consumer-spending/main>,

Trade Statistics: <https://www.bea.gov/data/economic-accounts/international#bop>, <https://usatrade.census.gov/>

Statistics of specific Industries: <https://www.census.gov/eos/www/naics/>, <https://www.census.gov/programs-surveys/susb.html>

<https://www.sba.gov/business-guide/plan-your-business/market-research-competitive-analysis#section-header-5>

Problem Solving and Need Recognition Techniques

Figure 6.1 Sometimes, navigating from the recognition of an opportunity to overcoming problems in the development of that opportunity can feel like winding through a maze. (credit: modification of “human hand company paper solutions” by “Eluj”/Pixabay, CC0)

Chapter Outline

- 6.1 Problem Solving to Find Entrepreneurial Solutions
- 6.2 Creative Problem-Solving Process
- 6.3 Design Thinking
- 6.4 Lean Processes

Introduction

Portions of the material in this section are based on original work by Geoffrey Graybeal and produced with support from the Rebus Community. The original is freely available under the terms of the CC BY 4.0 license at <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

Marah Lidey and Naomi Hirabayashi met when they worked together at DoSomething.org, a youth-oriented global nonprofit organization. They considered each other aspirational peers—accessible friends they looked up to and leaned on. While working together, they got the idea to turn the support they gave each other into a product idea: an inspirational platform that would send users a motivational text message each day. In 2015, Hirabayashi and Lidey began to focus on turning their idea into a reality. They conducted a test with seventy individuals before publicly releasing Shine in beta in October 2015. They formally left DoSomething.Org in April 2016 and their startup venture, Shine, was born.

The problem Shine tackles is that “self-help is broken” and its value proposition addresses in part what is known as “the confidence gap,” often cited as a barrier that holds women back when it comes to advancing in their careers, raising money, investing, and planning retirement. Shine has four pillars it is built to address: mental health, confidence, daily happiness, and productivity. As of 2018, the Shine community had two million

users from 189 countries. What began as a motivational text message service has since evolved to include an app and additional services such as Shine Talks and audio challenges.

Hirabayashi and Lidey recognized a need—or an *entrepreneurial opportunity*. You learned about identifying opportunities in the chapter on [Identifying Entrepreneurial Opportunity](#). This chapter will explore what happens next—the problem solving and need recognition techniques that entrepreneurs employ to carry the idea forward, and to solve issues that arise as the enterprise advances. Problem solving is essential to the genesis of entrepreneurship. At the same time, problem-solving techniques can be used in management and in an individual's everyday personal life.

6.1 Problem Solving to Find Entrepreneurial Solutions

Portions of the material in this section are based on original work by Geoffrey Graybeal and produced with support from the Rebus Community. The original is freely available under the terms of the CC BY 4.0 license at <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

Learning Objectives

By the end of this section, you will be able to:

- Define problem solving in the context of entrepreneurship
- Describe and compare the adaptive model and the innovative model of problem solving
- Identify the skills entrepreneurs need for effective problem solving
- Identify types of problem solvers

As you've learned, entrepreneurs often visualize an opportunity gap, a gap between what exists and what could exist, as Hirabayashi and Lidey did with Shine. **Entrepreneurial problem solving** is the process of using innovation and creative solutions to close that gap by resolving societal, business, or technological problems. Sometimes, personal problems can lead to entrepreneurial opportunities if validated in the market. The entrepreneur visualizes the prospect of filling the gap with an innovative solution that might entail the revision of a product or the creation of an entirely new product. In any case, the entrepreneur approaches the problem-solving process in various ways. This chapter is more about problem solving as it pertains to the entrepreneur's thought process and approach rather than on problem solving in the sense of opportunity recognition and filling those gaps with new products.

For example, as we read in [Identifying Entrepreneurial Opportunity](#), Sara Blakely (as shown in [Figure 6.2](#)) saw a need for body contouring and smoothing undergarments one day in the late 1990s when she was getting dressed for a party and couldn't find what she needed to give her a silhouette she'd be pleased with in a pair of slacks. She saw a problem: a market need. But her *problem-solving efforts* are what drove her to turn her solution (Spanx undergarments) into a viable product. Those efforts came from her self-admitted can-do attitude: "It's really important to be resourceful and scrappy—a glass half-full mindset."^[1] Her efforts at creating a new undergarment met resistance with hosiery executives, most of whom were male and out of touch with their female consumers. The hosiery owner who decided to help Blakely initially passed on the idea until running it by his daughters and realizing she was on to something. That something became Spanx, and today, Blakely is a successful entrepreneur.^[2]

1 Helen Lock. "‘I Put My Butt on the Line’: How Spanx Took Over the World." *The Guardian*. July 11, 2016. <https://www.theguardian.com/small-business-network/2016/jul/11/put-butt-on-the-line-how-spanx-world>

2 Gary Keller. "Business Success Series, Part 1: Sara Blakely-Spanx." *The One Thing*. n.d. <https://www.the1thing.com/blog/the-one-thing/business-success-series-part-1-sara-blakely-spanx/>



Figure 6.2 Sara Blakely (right) participates in a discussion at the 2018 Fast Company Innovation Festival. (credit: “Ed Bastian and Sara Blakely at the Fast Company Innovation Festival” by “Nan Palmero”/Flickr, CC BY 2.0)

Before getting into the heart of this chapter, we need to make a distinction: *Decision making is different from problem solving*. A decision is needed to continue or smooth a process affecting the operation of a firm. It can be intuitive or might require research and a long period of consideration. Problem solving, however, is more direct. It entails the solution of some problem where a gap exists between a current state and a desired state. Entrepreneurs are problem solvers who offer solutions using creativity or innovative ventures that exploit opportunities. This chapter focuses on different approaches to problem solving and need recognition that help potential entrepreneurs come up with ideas and refine those ideas.

Two Problem Solving Models: Adaptive and Innovative

There are two prominent established problem-solving models: *adaptive* and *innovative*. A renowned British psychologist, Michael Kirton, developed the Kirton Adaption-Innovation (KAI) Inventory to measure an individual’s style of problem solving.^[3] Problem-solving preferences are dependent on the personality characteristics of originality, conformity, and efficiency, according to Kirton. The KAI inventory identifies an individual’s problem-solving approach by measuring agreement with statements that align with characteristics, such as the ability to produce many novel ideas, to follow rules and get along in groups, and to systematically orient daily behavior. The results categorize an individual as an innovator or an adaptor. Innovators are highly original, do not like to conform, and value efficiency less than adaptors.

The first and more conservative approach an entrepreneur may use to solve problems is the adaptive model. The **adaptive model** seeks solutions for problems in ways that are tested and known to be effective. An adaptive model accepts the problem definition and is concerned with resolving problems rather than finding them. This approach seeks greater efficiency while aiming at continuity and stability. The second and more creative approach is the **innovative model** of entrepreneurial problem solving, which uses techniques that are unknown to the market and that bring advantage to an organization. An innovative problem-solving style challenges the problem definition, discovers problems and avenues for their solutions, and questions existing

3 “Characteristics of Adaptors and Innovators.” *Kirton KAI Inventory Tool*. n.d. http://pubs.acs.org/subscribe/archive/ci/31/i11/html/11hipple_box3.ci.html

assumptions—in a nutshell, it does things differently. It uses outside-the-box thinking and searches for novel solutions. Novelty is a shared trait of creative entrepreneurship, and it's why entrepreneurs gravitate toward this method of problem solving. According to Dr. Shaun M. Powell, a senior lecturer at the University of Wollongong, Australia: "Creative entrepreneurs are notable for a distinctive management style that is based on intuition, informality and rapid decision making, whereas the more conventional thinking styles are not in accord with the unique attributes of creative entrepreneurs."^[4] This way of problem solving doesn't alter an existing product. It is the creation of something entirely new.

For example, healthcare facilities have long been known as a source of methicillin-resistant *Staphylococcus aureus* (MRSA), a deadly infection that can have long-term effects on patients. Vital Vio, led by Colleen Costello, has developed white light technology that effectively disinfects healthcare facilities by targeting a molecule specific to bacteria. The light, safe to humans, can burn constantly to kill regenerative bacteria. An adaptive problem-solving model would seek to minimize harm of MRSA within a hospital—to respond to it—whereas the Vital Vio is an entirely new technique that seeks to eliminate it. Adaptive solutions to MRSA include established processes and protocols for prevention, such as having doctors, nurses, and other healthcare providers clean their hands with soap and water, or an alcohol-based hand rub before and after patient care, testing patients to see if they have MRSA on their skin, cleaning hospital rooms and medical equipment, and washing and drying clothes and bed linens in the warmest recommended temperatures.^[5]

LINK TO LEARNING

Visit *Inc. Magazine* for [support and advice for up-and-coming startups \(https://openstax.org/l/52AdviceStartup\)](https://openstax.org/l/52AdviceStartup) to learn more. Examples of how "Dorm Room" entrepreneurs spot and pursue opportunities are shared along with tips and advice for making your startup a success.

Problem-Solving Skills

While identifying problems is a necessary part of the origin of the entrepreneurial process, managing problems is an entirely different aspect once a venture is off the ground and running. An entrepreneur does not have the luxury of avoiding problems and is often responsible for all problem solving in a startup or other form of business. There are certain skills that entrepreneurs possess that make them particularly good problem solvers. Let's examine each skill (shown in [Figure 6.3](#)).

4 Shaun Powell. "The Management and Consumption of Organisational Creativity." *Journal of Consumer Marketing* 25, no. 3 (2008): 158–166.

5 N.C Healthcare-Associated Infections Prevention Program. *Healthcare-Associated Infections in North Carolina: 2014 Annual Report, Healthcare Consumer Version*. April 2015. https://epi.dph.ncdhhs.gov/cd/hai/figures/hai_apr2015_consumers_annual.pdf



Figure 6.3 These are a few of the skills that entrepreneurs possess that aid in solving problems. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Critical Thinking

Critical thinking is the complex analysis of a problem or issue with the goal of solving the problem or making a decision. The entrepreneur analyzes and peels away the layers of a problem to find the core of an issue facing a business. The entrepreneur focuses on the heart of the problem and responds reasonably and openly to suggestions for solving it. Critical thinking is not only important for developing entrepreneurial ideas: it is a sought-after asset in education and employment. Entrepreneur Rebecca Kantar dropped out of Harvard in 2015 to found the tech startup Imbellus, which aims to replace standardized college admissions tests like the SAT with interactive scenarios that test critical-thinking skills. Many standardized tests may include multiple choice questions asking for the answer to a straightforward knowledge question or math problem. Kantar seeks to create tests that are more concerned with the analytic ability and reasoning that goes into the process of solving the problem. Imbellus says it aims to test “how people think,” not just what they know. The platform, which has not yet launched, will use simulations for its user assessments.^[6]

6 Romesh Ratnesar. “What If Instead of Taking the SAT You Got to Play a Video Game?” *Bloomberg BusinessWeek*. March 19, 2019. <https://www.bloomberg.com/news/features/2019-03-19/a-harvard-dropout-s-plan-to-fix-college-admissions-with-video-games>

LINK TO LEARNING

Read more about [problem solving and EnterpriseWorks/Vita's story \(https://openstax.org/l/52ProbSolve\)](https://openstax.org/l/52ProbSolve) at *Harvard Business Review*.

Communication

Communication skills, the ability to communicate messages effectively to an intended recipient, are the skills entrepreneurs use to pool resources for the purposes of investigating solutions leading to innovative problem solving and competitive advantage. Good communication allows for the free association of ideas between entrepreneurs and businesses. It can illustrate a problem area or a shared vision, and seeks stakeholder buy-in from various constituencies. Networking and communication within an industry allow the entrepreneur to recognize the position of an enterprise in the market and work toward verbalizing solutions that move an organization beyond its current state. By “verbalizing,” we mean communication from and with the company/entity. Internal communications include company emails, newsletters, presentations, and reports that can set strategic goals and objectives, and report on what has been accomplished and what goals and objectives remain, so that employees within an organization are knowledgeable and can work on solving problems that remain within the organization. External communications could include press releases, blogs and websites, social media, public speeches, and presentations that explain the company's solutions to problems. They could also be investor pitches complete with business plans and financial projections.

Ideation exercises, such as brainstorming sessions (discussed in [Creativity, Innovation, and Invention](#), are good communication tools that entrepreneurs can use to generate solutions to problems. Another such tool is a **hackathon**—an event, usually hosted by a tech company or organization, which brings together programmers and workers with other degrees of specialization within the company, community, or organization to collaborate on a project over a short period of time. These can last from twenty-four hours to a few days over a weekend. A hackathon can be an internal company-wide initiative or an external event that brings community participants together. A business model canvas, which is covered in [Business Model and Plan](#) and other activities outlined in other chapters can be used internally or externally to identify problems and work toward creating a viable solution.

Networking is an important manifestation of useful communication. What better method is there of presenting one's concept, gaining funding and buy-in, and marketing for the startup than through building a network of individuals willing to support your venture? A network may consist of potential employees, customers, board members, outside advisors, investors, or champions (people who just love your product) with no direct vested interest. Social networks consist of weak ties and strong ties. Sociologist Mark Granovetter studied such networks back in the 1970s, and his findings still apply today, even if we include social media networks in the definition too. Weak ties facilitate flow of information and community organization, he said, whereas strong ties represent strong connections among close friends, family members, and supportive coworkers.^[7] Strong ties require more work to maintain than weak ties (as illustrated by the strong lines and weak dotted lines in [Figure 6.4](#)) and in a business context, they don't lead to many new opportunities. Weak ties, in contrast, do open doors in that they act as bridges to other weak ties within functional areas or departments that you might not have had access to directly or through strong ties.^[8]

7 Mark Granovetter. “The Strength of Weak Ties.” *American Journal of Sociology* 5 (1973): 1360–1380.

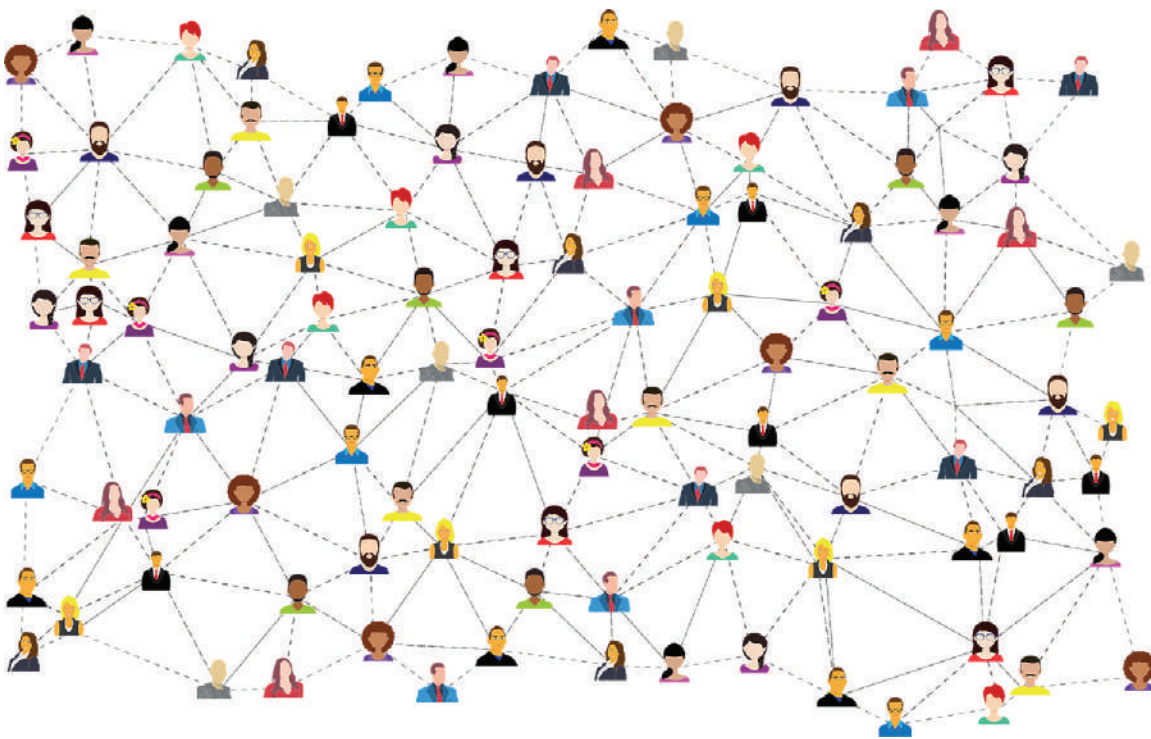


Figure 6.4 Networking results in connecting individuals who otherwise might not have met and who may be able to help each other solve problems. (credit: “social media connections networking” by “GDJ”/Pixabay, CC0)

In fact, many young entrepreneurs, including tech entrepreneur Oliver Isaacs, realize college is a great place to begin building teams. Isaacs is the founder of viral opinion network Amirite.com, which is widely credited as the place where Internet memes started and online slang got a foothold.^[9] Amirite.com consists of a large network of pages and partnerships on Facebook and Instagram that reach 15 million users each month. Isaacs recommends using your alumni network to build a team and customer base for your own venture because you never know if you’re talking to a future employee or partner.

Sharing of ideas and resources is highly valued in the entrepreneurial process. Communication is a vital skill in problem solving because the ability to identify and articulate the problem (define the problem space) is necessary to adequately address a problem. A problem can be too vague or broad or narrow. Thus, communicating the problem is important, as is conveying the solution.

Decisiveness

Decisiveness is as it sounds: the ability to make a quick, effective decision, not letting too much time go by in the process. Entrepreneurs must be productive, even in the face of risk. They often rely on intuition as well as on hard facts in making a choice. They ask what problem needs to be solved, think about solutions, and then consider the means necessary to implement an idea. And the decisions must be informed with research.

For example, as explained in Adam Grant’s book *The Originals*, the co-founders of Warby Parker, a venture-backed startup focused on the eyewear industry, started their company while they were graduate students. At

8 Jacob Morgan. “Why Every Employee Should Be Building Weak Ties at Work.” *Forbes*. March 11, 2014. <https://www.forbes.com/sites/jacobmorgan/2014/03/11/every-employee-weak-ties-work/#277851063168>

9 John White. “Top UK Influencer Oliver Isaacs Reveals What It Takes to Go Viral.” *Inc.* August 6, 2017. <https://www.inc.com/john-white/top-uk-influencer-oliver-isaacs-reveals-what-it-ta.html>

the time they knew little about the industry, but after conducting some detailed research, they learned that the industry was dominated by one major player—Luxottica. They used this information and other data to refine their strategy and business model (focusing mainly on value, quality, and convenience via an online channel). By the time they decided to launch the business, they had thought through the key details, and they attained rapid early success. Today Warby Parker has over 100 retail stores in the US, is profitable, and is valued at almost \$2 billion.

Decisiveness is the catapult to progress. Amazon founder Jeff Bezos preaches the importance of decisiveness throughout his organization. Bezos believes that decisiveness can even lead to innovation. Bezos advocates for making decisions after obtaining 70 percent of the information you need to do so: “Being wrong may be less costly than you think, whereas being slow is going to be expensive for sure,” Bezos wrote in a 2017 annual letter to stockholders.^[10]

LINK TO LEARNING

Read this [LinkedIn blog post on decisiveness \(https://openstax.org/l/52decisiveness\)](https://openstax.org/l/52decisiveness) to learn more.

Ability to Analyze Data

Data analysis is the process of analyzing data and modeling it into a structure that leads to innovative conclusions. [Identifying Entrepreneurial Opportunity](#) covered much of the sources of data that entrepreneurs might seek. But it is one thing to amass information and statistics. It is another to make sense of that data, to use it to fill a market need or forecast a trend to come. Successful founders know how to pose questions about and make meaning out of information. And if they can’t do that themselves, they know how to bring in experts who can.

In addition to public sources of broad data, a business can collect data on customers when they interact with the company on social media or when they visit the company website, especially if they complete a credit card transaction. They can collect their own specific data on their own customers, including location, name, activity, and how they got to the website. Analyzing these data will give the entrepreneur a better idea about the interested audience’s demographic.

In entrepreneurship, analyzing data can help with opportunity recognition, creation, and assessment by analyzing data in a variety of ways. Entrepreneurs can explore and leverage different data sources to identify and compare “attractive” opportunities, since such analyses can describe what has happened, why it happened, and how likely it is to happen again in the future. In business in general, analytics is used to help managers/entrepreneurs gain improved insight about their business operations/emerging ventures and make better, fact-based decisions.

Analytics can be descriptive, predictive, or prescriptive. Descriptive analytics involves understanding what has happened and what is happening; predictive analytics uses data from past performance to estimate future performance; and prescriptive analytics uses the results of descriptive and predictive analytics to make decisions. Data analysis can be applied to manage customer relations, inform financial and marketing activities, make pricing decisions, manage the supply chain, and plan for human resource needs, among other

10 Erik Larson. “How Jeff Bezos Uses Faster Better Decisions to Keep Amazon Innovating.” *Forbes*. September 24, 2018. <https://www.forbes.com/sites/eriklarson/2018/09/24/how-jeff-bezos-uses-faster-better-decisions-to-keep-amazon-innovating/#492c351b7a65>

functions of a venture. In addition to statistical analysis, quantitative methods, and computer models to aid decision-making, companies are also increasingly using artificial intelligence algorithms to analyze data and make quick decisions.

Understanding of Business and Industry

Entrepreneurs need sound understanding of markets and industries. Often times, they are already working in a large organization when they see growth opportunities or inefficiencies in a market. The employee gains a deep understanding of the industry at hand. If the employee considers a possible solution for a problem, this solution might become the basis for a new business.

For example, consider a marketing agency that used traditional marketing for thirty years. This agency had an established clientele. An executive in the organization began studying social media analytics and social media. The executive approached the owner of the business to change processes and begin serving clients through social media, but the owner refused. Clients within the agency began to clamor for exposure on social media. The marketing executive investigated the possibility of building an agency in her locale servicing clients who wish to utilize social media. The marketing executive left the organization and started her own agency (providing, of course, that this is in compliance with any noncompete clauses in her contract). Her competitive advantage was familiarity with both traditional and social media venues. Later, the original agency started floundering because it did not offer social media advertising. Our intrepid executive purchased the agency to gain the clientele and serve those wishing to move away from traditional marketing.

A similar experience occurred for entrepreneur Katie Witkin. After working in traditional marketing roles, the University of Wisconsin-Madison graduate, pictured in [Figure 6.5](#), left agency life behind four years out of college to cofound her own company, AGW Group. In 2009, Witkin had been interning at a music marketing agency that didn't have a social media department. She knew, both from her time at college and from observing industry trends, that social media was changing the way companies connected with customers. For her own venture, she expanded the focus to all supporting brands to manage all things digital. Today, the cultural and marketing communications agency has fifteen employees and big-name clients ranging from HBO to Red Bull.^[11]

11 Stephanie Schomer. "How Getting Laid Off Empowered This Entrepreneur to Start Her Own Award-Winning Marketing Agency." *Entrepreneur*. January 15, 2019. <https://www.entrepreneur.com/article/326212>



Figure 6.5 Pictured is AGW Group cofounder Katie Witkin. (credit: photo provided by AGW Group)

Resourcefulness

Resourcefulness is the ability to discover clever solutions to obstacles. Sherrie Campbell, a psychologist, author, and frequent contributor to *Entrepreneur* magazine on business topics, put it this way:

“There is not a more useful or important trait to possess than resourcefulness in the pursuit of success. Resourcefulness is a mindset, and is especially relevant when the goals you have set are difficult to achieve or you cannot envision a clear path to get to where you desire to go. With a resourcefulness mindset you are driven to find a way. An attitude of resourcefulness inspires out-of-the-box thinking, the generation of new ideas, and the ability to visualize all the possible ways to achieve what you desire. Resourcefulness turns you into a scrappy, inventive and enterprising entrepreneur. It places you a cut above the rest.”^[12]

Entrepreneurs start thinking about a business venture or startup by talking to people and procuring experts to help create, fund, and begin a business. Entrepreneurs are risk takers, passionate about new endeavors. If they don’t have a college degree or a great deal of business experience, they understand there are many resources available to support them in the endeavor, such as the Service Corps of Retired Executives (SCORE) and the Small Business Administration (SBA). There are many sources available to fund the business with little or no debt and options, as you will see in the chapter on [Entrepreneurial Finance and Accounting](#). The entrepreneur follows a vision and researches opportunities to move toward a dream.

For example, in the late 1990s, Bill McBean and his business partner Billy Sterett had an opportunity to buy an underperforming auto dealership that would make their company the dominant one in the market. Neither wanting to take cash from other ventures nor wanting to borrow more money and tie themselves to more debt, the entrepreneurs were resourceful by finding another path forward to obtaining the money necessary for the acquisition they both coveted. They changed banks and renegotiated their banking payback requirements, lowering their interest payments, reducing fees, and lowering their monthly payments, ultimately freeing up a significant amount of cash that allowed them to buy the new company.^[13]

12 Sherrie Campbell. “6 Characteristics of Resourceful People That Bring Them Success.” *Entrepreneur*. March 10, 2016. <https://www.entrepreneur.com/article/272171>

Types of Problem Solvers

Entrepreneurs have an insatiable appetite for problem solving. This drive motivates them to find a resolution when a gap in a product or service occurs. They recognize opportunities and take advantage of them. There are several types of entrepreneurial problem solvers, including self-regulators, theorists, and petitioners.

Self-Regulating Problem Solvers

Self-regulating problem solvers are autonomous and work on their own without external influence. They have the ability to see a problem, visualize a possible solution to the problem, and seek to devise a solution, as [Figure 6.6](#) illustrates. The solution may be a risk, but a self-regulating problem solver will recognize, evaluate, and mitigate the risk. For example, an entrepreneur has programmed a computerized process for a client, but in testing it, finds the program continually falls into a loop, meaning it gets stuck in a cycle and doesn't progress. Rather than wait for the client to find the problem, the entrepreneur searches the code for the error causing the loop, immediately edits it, and delivers the corrected program to the customer. There is immediate analysis, immediate correction, and immediate implementation. The self-regulating problem solvers' biggest competitive advantage is the speed with which they recognize and provide solutions to problems.

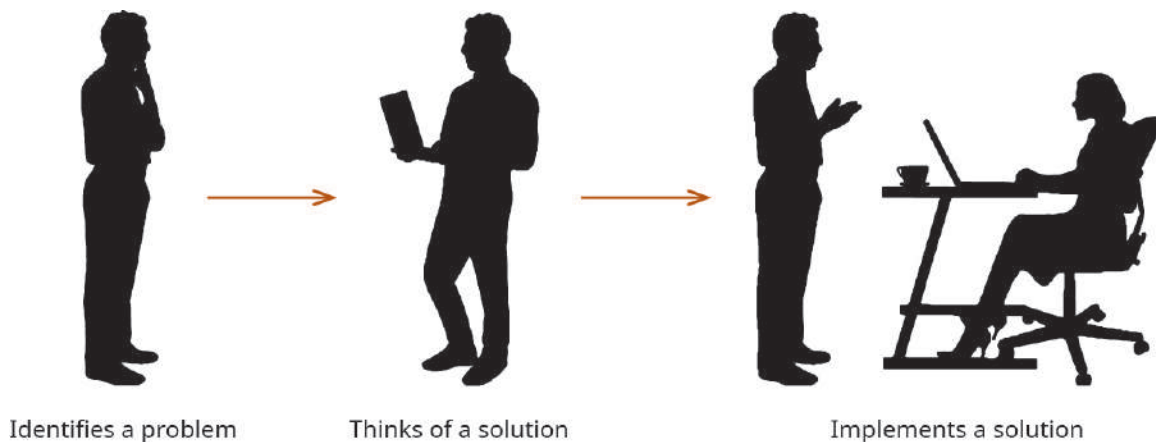


Figure 6.6 A self-regulating problem solver identifies a problem, thinks of solution, and then implements the solution. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Theorist Problem Solvers

Theorist problem solvers see a problem and begin to consider a path toward solving the problem using a theory. Theorist problem solvers are process oriented and systematic. While managers may start with a problem and focus on an outcome with little consideration of a means to an end, entrepreneurs may see a problem and begin to build a path with what is known, a theory, toward an outcome. That is, the entrepreneur proceeds through the steps to solve the problem and then builds on the successes, rejects the failures, and works toward the outcome by experimenting and building on known results. At this point, the problem solver may not know the outcome, but a solution will arise as experiments toward a solution occur. [Figure 6.7](#) shows this process.

For example, if we consider Marie Curie as an entrepreneur, Curie worked toward the isolation of an element. As different approaches to isolating the element failed, Curie recorded the failures and attempted other possible solutions. Curie's failed theories eventually revealed the outcome for the isolation of radium. Like

Curie, theorists use considered analysis, considered corrective action, and a considered implementation process. When time is of the essence, entrepreneurs should understand continual experimentation slows the problem-solving process.

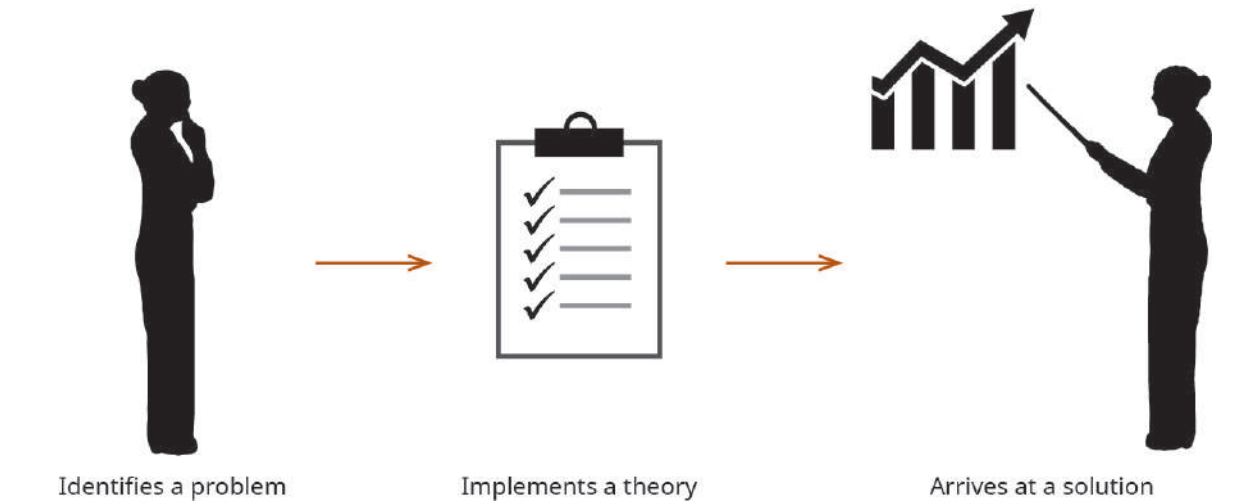


Figure 6.7 A theorist problem solver identifies a problem; implements a theory, sometimes repeatedly; and eventually arrives at a solution. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Petitioner Problem Solvers

Petitioner problem solvers (Figure 6.8) see a problem and ask others for solution ideas. This entrepreneur likes to consult a person who has “been there and done that.” The petitioner might also prefer to solve the problem in a team environment. Petitioning the entrepreneurial team for input ensures that the entrepreneur is on a consensus-driven path. This type of problem solving takes the longest to complete because the entrepreneur must engage in a democratic process that allows all members on the team to have input. The process involves exploration of alternatives for the ultimate solution. In organizational decision-making, for example, comprehensiveness is a measure of the extent a firm attempts to be inclusive or exhaustive in its decision-making. Comprehensiveness can be gauged by the number of scheduled meetings, the process by which information is sought, the process by which input is obtained from external sources, the number of employees involved, the use of specialized consultants and the functional expertise of the people involved, the years of historical data review, and the assignment of primary responsibility, among other factors. Comprehensive decision-making would be an example of a petitioner problem-solving style, as it seeks input from a vast number of team members.

A *charette*—a meeting to resolve conflicts and identify solutions—is another example that employs a petitioner problem-solving approach. Often times, a developer of a new project might hold a community charette to aid in the design of a project, hoping to gain approval from elected officials. In the building example, this could consist of the developer and his team of architects, project designers, and people with expertise in the project working alongside community members, business executives, elected officials, or representatives like staff members or citizen-appointed boards like a planning board. Such an activity is representative of a petitioner problem-solving approach, as opposed to a developer representative designing the project with no input from anyone else.



Figure 6.8 A petitioner problem solver identifies a problem, discusses it with others, and arrives at solution agreeable to others. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

In summary, there is no right or wrong style of problem solving; each problem solver must rely on the instincts that best drive innovation. Further, they must remember that not all problem-solving methods work in every situation. They must be willing to adapt their own preference to the situation to maximize efficiency and ensure they find an effective solution. Attempting to force a problem-solving style may prevent an organization from finding the best solution. While general entrepreneurial problem-solving skills such as critical thinking, decisiveness, communication, and the ability to analyze data will likely be used on a regular basis in your life and entrepreneurial journey, other problem-solving skills and the approach you take will depend on the problem as it arises.

There are a number of resources online that can help analyze your problem-solving abilities. Mindtools.com is one such resource. These are useful to learn your general problem-solving tendencies before being called upon to apply them in a real-world setting. One of the problem-solving techniques available from mindtools.com offers that problems can be addressed from six different perspectives. Called CATWOE, the approach is an acronym for Customers, Actors (people within the organization), Transformative, Worldwide, Owner, and Environment (organizational).

LINK TO LEARNING

Learn more about the [CATWOE technique \(https://openstax.org/l/52CATWOE\)](https://openstax.org/l/52CATWOE) for problem solving.

6.2 Creative Problem-Solving Process

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Learning Objectives

By the end of this section, you will be able to:

- Describe the five steps in the creative problem-solving process
- Identify and describe common creative problem-solving tools

Creativity can be an important trait of an entrepreneur, as the chapter on [Creativity, Innovation, and Invention](#) discussed. In that discussion, we learned about creativity's role in *innovation*. Here, we will look in more depth at creativity's role in *problem solving*. Let's first formally define **creativity** as the development of original ideas to solve an issue. The intent of being an entrepreneur is to break away from practical norms and use imagination to embrace quick and effective solutions to an existing problem, usually outside the corporate environment.

The Steps of the Creative Problem-Solving Process

Training oneself to think like an entrepreneur means learning the steps to evaluating a challenge: clarify, ideate, develop, implement, and evaluate ([Figure 6.9](#)).



Figure 6.9 The process of creativity is not random; it is a specific and logical process that includes evaluation. The entrepreneur repeats the creative process until reaching a successful solution. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Step 1: Clarify

To **clarify** is the critical step of recognizing the existence of a gap between the current state and a desired state. This can also be thought of as having **need awareness**, which occurs when the entrepreneur notes a gap between societal or customer needs and actual circumstances. Clarifying the problem by speaking with clients and developing a detailed description of the problem brings the specifics of a problem to light. Failure to identify the specifics of a problem leaves the entrepreneur with the impossible task of solving a ghost problem, a problem that is fully unknown or unseen. To establish and maintain credibility, an entrepreneur must clarify the problem by focusing on solving the problem itself, rather than solving a symptom of the problem.

For example, a farm could have polluted water, but it would not be enough to solve the problem only on that farm. Clarifying would involve identifying the source of the pollution to adequately tackle the problem. After gaining an understanding of a problem, the entrepreneur should begin to formulate plans for eliminating the gap. A fishbone diagram, as shown in [Figure 6.10](#), is a tool that can be used to identify the causes of such a problem.

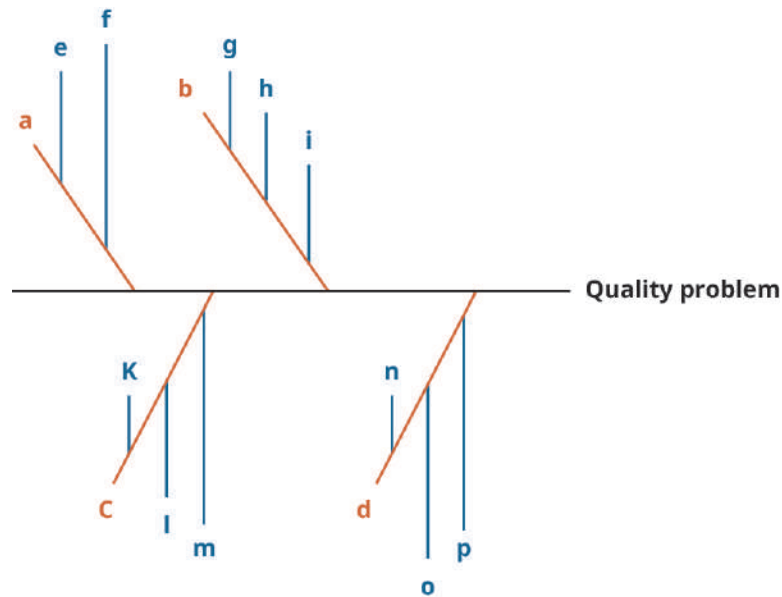


Figure 6.10 A quality problem has main causes—here designated as a, b, c, and d. Within these main causes, there are several causes that might need to be addressed to solve the quality problem. The goal of a fishbone diagram is to find the root causes of the quality problem. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

In the case of our water pollution example, a fishbone diagram exploring the issue might reveal the items shown in [Figure 6.11](#).

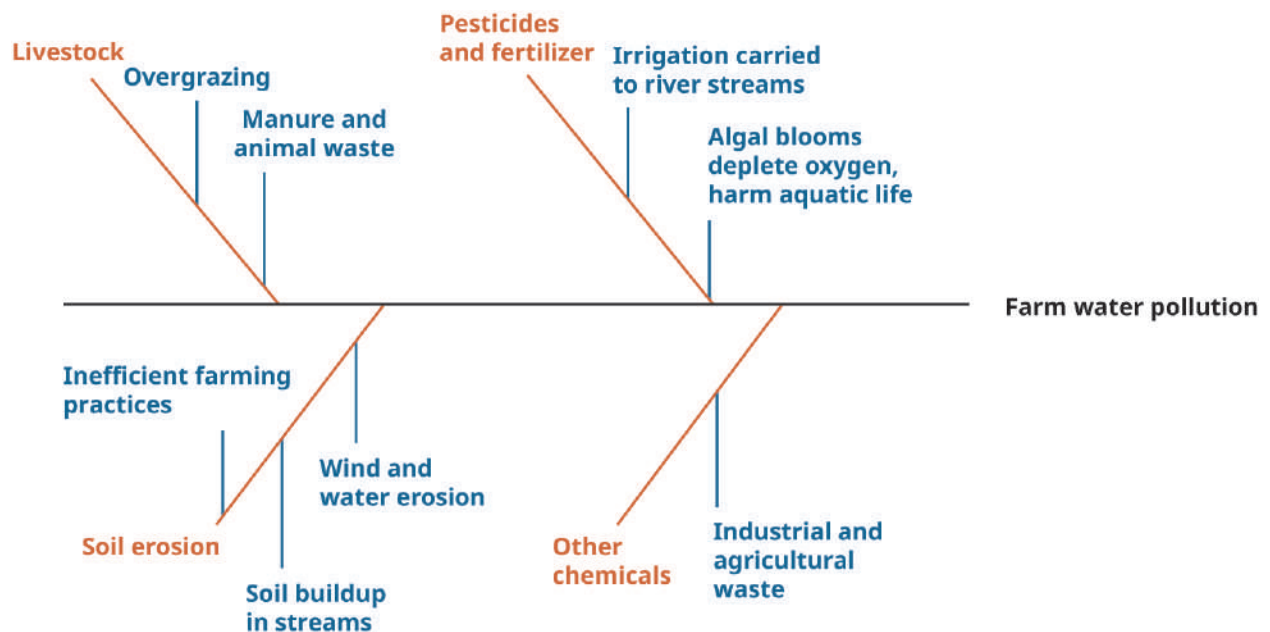


Figure 6.11 Farm water pollution could have four main causes, such as livestock, pesticide and fertilizer, soil erosion, and other chemicals. For each of those, there are other related causes. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Step 2: Ideate

To **ideate** is the step of the creative problem-solving process that involves generating and detailing ideas by the entrepreneur. After collecting all information relevant to the problem, the entrepreneur lists as many causes of the problem as possible. This is the step in which the largest variety of ideas are put forth. Each idea must be evaluated for feasibility and cost as a solution to the problem. If a farm does not have clean water, for example, the entrepreneur must list causes of toxic water and eliminate as many of those causes as possible. The entrepreneur must then move forward investigating solutions to bring the water back to a safe state. If, say, nearby livestock are polluting the water, the livestock should be isolated from the water source.

Step 3: Develop

To **develop** is the step in which the entrepreneur takes the list of ideas generated and tests each solution for feasibility. The entrepreneur must consider the cost of each idea and the obstacles to implementation. In the preceding example, adding a chemical to the water may not be a feasible solution to the farmer. Not every farmer wants additional chloride or fluoride added to the water due to the effect on both humans and livestock. These tradeoffs should be addressed in the feasibility assessment. The farmer might prefer a filtration system, but the cost of that solution might not be practicable. The entrepreneur should identify and assess alternative solutions to find one that is most cost-effective and feasible to the customer.

Step 4: Implement

To **implement** is the step in which the solution to the problem is tested and evaluated. The entrepreneur walks through the planned implementation with the client and tests each part of the solution, if a service, or thoroughly tests a developed good. The entrepreneur implements the solution and goes through a structured system of follow-up to ensure the solution remains effective and viable. In the water example, the solution would be reducing runoff from toxic insecticides by adding prairie strips, buffers of grass, and vegetation along banks of streams.

Step 5: Evaluate

To **evaluate** is the step in which the final solution is assessed. This is a very important step that entrepreneurs often overlook. Any fallacy in the implementation of the product or service is reassessed, and new solutions are implemented. A continual testing process may be needed to find the final solution. The prairie strips, buffers of grass, and vegetation along banks of streams chosen in the farming water example should then be analyzed and tested to ensure the chosen solution changed the content of the water.

ARE YOU READY?

Implementing Creative Problem Solving

Removing waste is a problem, and it can also present an entrepreneurial opportunity. Try to examine ways in which waste products that you usually pay to have hauled away can now generate revenue. Whether it's recycling aluminum cans or cardboard, or garbage that could be used to feed animals, your task is to come up with solutions to this entrepreneurial-oriented problem.

- Try following the first step of the creative problem-solving process and clearly identify the problem.
- Next, gather data and formulate the challenge.
- Then, explore ideas and come up with solutions.
- Develop a plan of action.
- Finally, note how you would evaluate the effectiveness of your solution.

Using Creativity to Solve Problems

Entrepreneurs are faced with solving many problems as they develop their ideas for filling gaps, whether those opportunities involve establishing a new company or starting a new enterprise within an existing company. Some of these problems include staffing, hiring and managing employees, handling legal compliance, funding, marketing, and paying taxes. Beyond the mundane activities listed, the entrepreneur, or the team that the entrepreneur puts in place, is indispensable in maintaining the ongoing creativity behind the product line or service offered. Innovation and creativity in the business are necessary to expand the product line or develop a groundbreaking service.

It is not necessary for the entrepreneur to feel isolated when it comes to finding creative solutions to a problem. There are societies, tools, and new methods available to spur the creativity of the entrepreneur that will further support the success and expansion of a new enterprise.^[14] Learning and using entrepreneurial methods to solve problems alleviates the stress many startup owners feel. The entrepreneur's creativity will increase using collaborative methodologies. Some entrepreneurial collaborative methodologies include crowdsourcing, brainstorming, storyboarding, conducting quick online surveys to test ideas and concepts, and team creativity activities.

Crowdsourcing

Professor Daren Brabham at the University of Southern California has written books on crowdsourcing and touts its potential in for-profit and not-for-profit business sectors. He defines it simply as "an online, distributed problem-solving and production model."^[15] **Crowdsourcing** involves teams of amateurs and nonexperts working together to form a solution to a problem.^[16] The idea, as cbsnews.com's Jennifer Alsever has put it, is to "tap into the collective intelligence of the public at large to complete business-related tasks that a company would normally either perform itself or outsource to a third-party provider. Yet free labor is only a narrow part of crowdsourcing's appeal. More importantly, it enables managers to expand the size of their talent pool while also gaining deeper insight into what customers really want. The challenge is to take a cautionary approach to the 'wisdom of the crowd,' which can lead to a 'herd' mentality."^[17]

14 "Creating a World of Opportunities." *The Collegiate Entrepreneurs' Organization*. n.d. <https://www.c-e-o.org/>

15 Daren C. Brabham. "Crowdsourcing as a Model for Problem Solving: An Introduction and Cases." *Convergence: The International Journal of Research into New Media Technologies* 14, no. 1 (2008): 75–90.

16 Michael Houlihan and Bonnie Harvey. "How Crowdsourcing Is Shaping the Future of Everything." *Entrepreneur*. January 13, 2018. <https://www.entrepreneur.com/article/307438>

17 Jennifer Alsever. "What Is Crowdsourcing?" *CBS News*. May 1, 2008. <https://www.cbsnews.com/news/what-is-crowdsourcing>

LINK TO LEARNING

Read this [article that discusses what crowdsourcing is, how to use it, and its benefits](https://openstax.org/l/52CrowdSource) (<https://openstax.org/l/52CrowdSource>) for more information.

This new business prototype, similar to outsourcing, features an enterprise posting a problem online and asking for volunteers to consider the problem and propose solutions. Volunteers earn a reward, such as prize money, promotional materials like a T-shirt, royalties on creative outlets like photos or designs, and in some cases, compensation for their labor. Before proposing the solution, volunteers learn that the solutions become the intellectual property of the startup posting the problem. The solution is then mass produced for profit by the startup that posted the problem.^[18] The process evolves into the crowdsourcing process after the enterprise mass produces and profits from the labor of the volunteers and the team. Entrepreneurs should consider that untapped masses have solutions for many issues for which agendas do not yet exist. Crowdsourcing can exploit those agendas and add to the tools used to stimulate personal creativity. This type of innovation is planned and strategically implemented for profit.

For example, Bombardier held a crowdsourced innovation contest to solicit input on the future of train interiors, including seat design and coach class interior. A corporate jury judged the submissions, with the top ten receiving computers or cash prizes. Companies are often constrained, however, by internal rules limiting open source or external idea sourcing, as they could be accused of “stealing” an idea. While crowdsourcing outside of software can be problematic, some products such as MakerBot’s 3D printers, 3DR’s drones, and Jibo’s Social Robot have used developer kits and “makers” to help build a community and stimulate innovation from the outside.

WORK IT OUT

A Crowdsourced Potato Chip

In an effort to increase sales among millennials, PepsiCo turned to crowdsourcing to get new flavor ideas for their Lay’s potato chips (called Walker’s in the UK). Their 2012 campaign, “Do Us a Flavor,” was so successful that they received over 14 million submissions. The winner was Cheesy Garlic Bread, which increased their potato chip sales by 8 percent during the first three months after the launch.

- What are some other products that would work well for a crowdsourced campaign contest?
- What items wouldn’t work well?

Amazon’s Mechanical Turk is an online crowdsourcing platform that allows individuals to post tasks for workers to complete. In many instances, these tasks are compensated, but the payment can be less than one dollar per item completed. Mechanical Turk is one of the largest and most well-known crowdsourcing

18 Daren C. Brabham. “Crowdsourcing as a Model for Problem Solving: An Introduction and Cases.” *Convergence: The International Journal of Research into New Media Technologies* 14, no. 1 (2008): 75–90.

platforms, but there are a number of other more niche ones as well that would apply to smaller markets. In the case of innovation contests and outsourced tasks from corporations, those tasks may be hosted internally by the corporation.

Brainstorming

Brainstorming is the generation of ideas in an environment free of judgment or dissension with the goal of creating solutions. See [Creativity, Innovation, and Invention](#) to refresh yourself on this technique.

Brainstorming is meant to stimulate participants into thinking about problem solving in a new way. Using a multifunctional group, meaning participants come from different departments and with different skill sets, gives entrepreneurs and support teams a genuine chance to suggest and actualize ideas. The group works together to refine and prototype potential solutions to a problem.

LINK TO LEARNING

Brainstorming is a highly researched and often practiced technique for the development of innovative solutions. One of the more successful proponents of brainstorming is the United Nations Children's Fund (UNICEF). UNICEF faces unique problems of solving resource problems for mothers and children in underdeveloped nations. See how [UNICEF practices brainstorming to solve problems \(https://openstax.org/l/52UNICEFbrain\)](https://openstax.org/l/52UNICEFbrain) including child survival, gender inclusion, refugee crises, education, and others.

The setting for a brainstorming session should remain as informal and relaxed as possible. The group needs to avoid standard solutions. All ideas are welcome and listed and considered with no censorship and with no regard to administrative restrictions. All team members have an equal voice. The focus of brainstorming is on quantity of ideas rather than on the ideal solution provided in every suggestion. A classic entrepreneurial brainstorming activity, as popularized by business software developer Strategyzer, is known as the "silly cow" exercise. Teams come up with ideas for new business models pertaining to a cow, with the results often outrageous, ranging from sponsored cows to stroking cows for therapeutic release. Participants are asked to identify some aspect of a cow and develop three business models around that concept in a short time period, typically two minutes or fewer. The activity is designed to get creative juices flowing.

LINK TO LEARNING

Watch this [video from ABC's Nightline that shows how IDEO designed a new shopping cart \(https://openstax.org/l/52IDEOshopcart\)](https://openstax.org/l/52IDEOshopcart) for an example of a design process that involves brainstorming.

Storyboarding

Storyboarding is the process of presenting an idea in a step-by-step graphic format, as [Figure 6.12](#) shows. This tool is useful when the entrepreneur is attempting to visualize a solution to a problem. The steps to the solution of a problem are sketched and hung in graphic format. Once the original graphic is placed, images of steps working toward a solution are added, subtracted, and rearranged on a continual basis, until the ultimate solution emerges in the ultimate graphic format. For many years, entrepreneurs have used this process to create a pre-visual for various media sequences.



Figure 6.12 Storyboarding helps entrepreneurs and team members to visually represent steps in product creation and problem solving. (credit: “Clue storyboarding” by Adam Wiggins/Flickr, CC BY 2.0)

Team Creativity

Team creativity is the process whereby an entrepreneur works with a team to create an unexpected solution for an issue or challenge. Teams progress through the same creative problem-solving process described already: clarify, ideate, develop, implement, and evaluate. The main advantage of team creativity is the collaboration and support members receive from one another. Great teams trust in other team members, have diverse members with diverse points of view, are cohesive, and have chemistry.

Team members should work in a stress-free and relaxing environment. Reinforcement and expansion of ideas in the team environment motivates the team to continually expand horizons toward problem solution. A small idea in a team may spark the imagination of a team member to an original idea. Mark Zuckerberg, cofounder of Facebook, once said, “The most important thing for you as an entrepreneur trying to build something is, you need to build a really good team. And that’s what I spend all my time on.”^[19]

19 “Three Tips for Entrepreneurs Creating the Perfect Team.” *Virgin*. n.d. <https://www.virgin.com/entrepreneur/three-tips-entrepreneurs-creating-perfect-team>

ENTREPRENEUR IN ACTION

Taaluma Totes^[20]

Young entrepreneurs Jack DuFour and Alley Heffern began to notice the beautiful fabrics that came from the different countries they visited. The entrepreneurs thought about what could be done with the fabrics to create employment opportunities both in the country from which the fabric originated and in their home base of Virginia. They decided to test producing totes from the fabrics they found and formed Taaluma Totes (Figure 6.13). DuFour and Heffern also wanted to promote the production of these fabrics and help underserved populations in countries where the fabric originated maintain a living or follow a dream.



Figure 6.13 This photograph was taken by a traveler, Kelsey Friedman, who studied abroad in Rwanda through Virginia Tech's International Business in Lugano: Combining Theory and Practice program. (credit: photo provided by Taaluma Totes)

The team continued to test the process and gathered original fabrics, which they sent to Virginia to create totes. They trained individuals with disabilities in Virginia to manufacture the totes, thus serving populations in the United States. The entrepreneurs then decided to take 20 percent of their profits and make microloans to farmers and small business owners in the countries where the fabric originated to create jobs there. Microloans are small loans, below \$50,000, which certain lenders offer to enterprising startups. These startups, for various reasons (they are in poor nations, at poverty level), can't afford a traditional loan from a major bank. The lenders offer business support to the borrower, which in turn helps the borrower repay the microloan. The microloans from Taaluma are repaid when the borrower is able. Repayments are used to buy more fabric, completing Taaluma's desire to serve dual populations. If the process proved unsuccessful, the co-owners would revise the process to meet the plan's requirements.

DuFour and Heffern now have fabrics from dozens of countries from Thailand to Ecuador. The totes are specialized with features to meet individual needs. The product line is innovated regularly and Taaluma Totes serves a dual purpose of employing persons with disabilities in Virginia and creating employment for underserved populations in other countries.

6.3 Design Thinking

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Learning Objectives

By the end of this section, you will be able to:

- Explain the design thinking process
- Discuss some design thinking tools

David Kelley, founder of Stanford University's Design School and cofounder of design company IDEO, is credited as the originator of design thinking, at least within business and entrepreneurial contexts. You were briefly introduced to design thinking in [Creativity, Innovation, and Invention](#), but we will delve into it in more depth here. IDEO grew from a merger of the creator of Apple's first mouse and the first laptop computer designer, David Kelley Design and ID Two, respectively. Almost a decade after the 1982 Apple creations, the 1991-merged company primarily focused on the traditional design of products, ranging from toothbrushes to chairs. Yet another decade later, the company found itself designing consumer experiences more so than consumer products. Kelley began using the word "thinking" to describe the design process involved in creating customer experiences rather than creating physical products. The term *design thinking* was born.

The current IDEO CEO Tim Brown defines design thinking as "a human-centered and collaborative approach to problem-solving, using a designed mindset to solve complex problems."^[21] **Design thinking** is a method to focus the design and development decisions of a product on the needs of the customer, typically involving an empathy-driven process to define complex problems and create solutions that address those problems.

A common core of design thinking is its application beyond the design studio, as the methods and tools have been articulated for use by those outside of the field, particularly business managers. Design practice is now being applied beyond product and graphic areas to the design of digital interactions, services, business strategy, and social policy.

LINK TO LEARNING

Watch this [2009 TEDGlobal talk where Tim Brown describes design thinking \(https://openstax.org/l/52TEDTimBrown\)](https://openstax.org/l/52TEDTimBrown) from a historical perspective to modern times.

Design Thinking Process

Business schools have typically taught a rational, analytic approach to thinking. It focuses on well-defined goals and constraints, and thought precedes action in a sequential process of planning and analysis. The design thinking process approaches problem solving differently. Thinking and doing are often intertwined in an iterative exploration of the design "space," and the process uncovers goals and constraints, rather than

21 Mark Logan. "Design Thinking for Entrepreneurs." *Medium*. September 29, 2018. <https://medium.com/idealelect/design-thinking-for-entrepreneurs-392c8cbdcc24>

identifying them up front.

One design thinking approach that is taught at places like Stanford’s Design School and organizations like the LUMA Institute (a global company that teaches people how to be innovative) is **human-centered design (HCD)**. HCD, as the name suggests, focuses on people during design and development. This speaks to the Tim Brown definition of design thinking. Inspiration for ideas comes from exploration of actual people, their needs and problems.

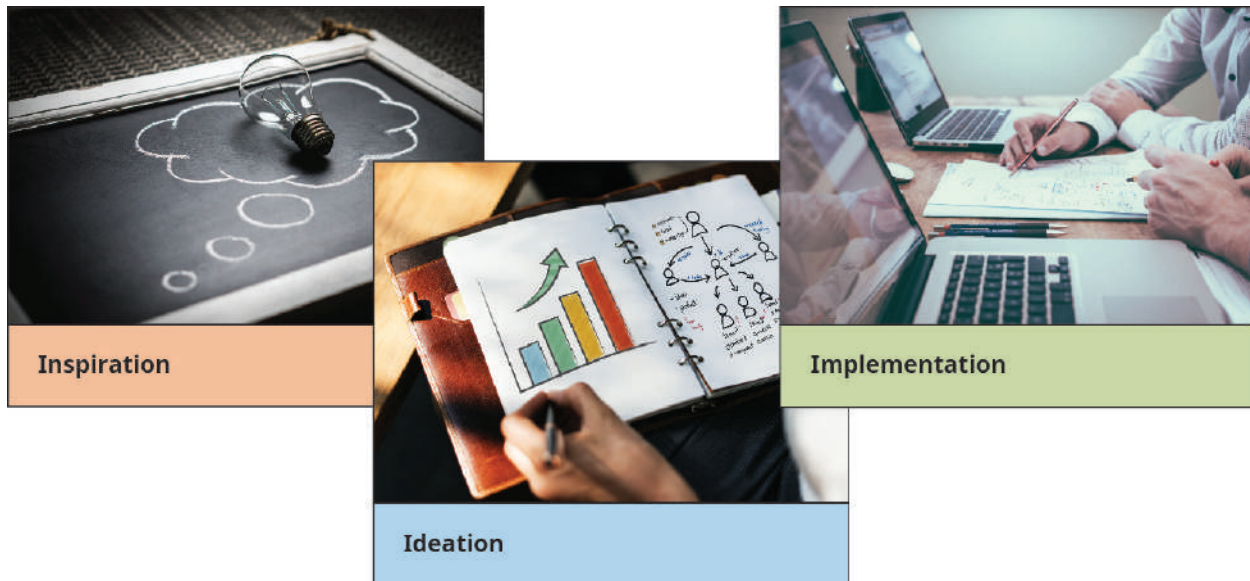


Figure 6.14 The design thinking process focuses on the spaces of inspiration, ideation, and implementation. (credit (left): modification of “thought idea innovation imagination” by “TeroVesalainen”/Pixabay, CC0; credit (center): modification of “document paper business chart” by “rawpixel”/Pixabay, CC0; credit (right): modification of “office business colleagues meeting” by “Free-Photos”/Pixabay, CC0)

Three spaces—inspiration, ideation, and implementation—compose the design thinking process ([Figure 6.14](#)). The process uses “spaces” and not “phases” because multiple spaces can happen simultaneously.

Nevertheless, inspiration usually occurs first. This entails identifying a problem or opportunity that motivates someone to search for solutions. Ideation is the process of generating ideas and solutions through various techniques such as brainstorming and sketching sessions. There are hundreds of ideation techniques available. A few examples of ideation exercises include Top Five, How Might We, Mash-up, and Co-Creation Session. In Top Five, everyone on the team writes down their top five ideas, shares them, and clusters similar ideas. In How Might We, the team looks at insight statements and reframes them as “How Might We” questions by adding that phrase at the beginning. The goal is to find opportunities for design that also allows for a variety of solutions. Mash-up involves combining existing brands or concepts to create something new. The team identifies those brands or concepts that represent a quality they desire in their solution, and they “mash up” those ideas to create a new idea. A co-creation session incorporates the desired market into the creation process by recruiting a group of people from the market to work on the design with the team. The goal is to capture the feedback the group provides by treating them as designers, not as interview subjects. Implemented solutions evolve from interactions with users and from the ongoing creation and refinement of possible solutions. Design thinking incorporates experience-based insights, judgments, and intuition from the end users’ perspectives, while in a rational analytic approach, the solution process often becomes formalized into a set of rules.

Nesta is a UK-based innovation foundation that offers many design thinking tools and resources similar to IDEO. Named for the acronym NESTA, the National Endowment for Science, Technology and the Arts, the organization was established in 1998 with an endowment from the UK National Lottery and became an independent charity in 2012. Nesta's strategy focuses on health, government innovation, education, arts, and creative economy and innovation policy. Nesta offers a set of five criteria to ascertain that an occupation is creative:^[22]

1. Novel process
2. Mechanization resistant
3. Nonrepetitive or nonuniform function
4. Makes a creative contribution to the value chain
5. Involves interpretation not merely a transformation in the service or artifact

As the name implies, design thinking originates from design. As design is one of the identified creative industries, there's a clear connection between creative industries and design thinking. In fact, Nesta offers inspiration and ideation exercises that are freely available for users wishing to implement design thinking practices.

Human-Centered Design Thinking Spaces

The Stanford Design School uses human-centered design thinking (HCD) as its design thinking approach. HCD emphasizes the following spaces of the design thinking process:

- Empathizing: As illustrated by the human-centered approach, it is important to have empathy for the problem you are attempting to solve. Empathy, as the chapter on [Creativity, Innovation, and Invention](#) defined, means observing and immersing yourself in the surrounding environment to engage with and understand people's experiences and motivations.
- Defining: This aspect involves describing the core problem(s) that you and your team have identified. Asking "how might we?" questions helps narrow the focus, as the ultimate aim here is to identify a problem statement that illustrates the problem you want to tackle. "Frame Your Design" is one such challenge in what IDEO calls its "toolkit" that works well here. Frame Your Design asks you to write down your problem and then refine it by following specific steps so that you end up with a design question that serves as a starting point but leaves room for creativity.^[23]
- Ideating: This is where you begin to come up with ideas that address the problem "space" you have defined. There are hundreds of exercises aimed at the ideation process, ranging from brainstorming to "Five whys?" in the IDEO toolkit. The "Five whys" is a questioning method in which the researcher, in looking for information to solve a problem, asks a respondent a broad question, then asks "why" to get deeper into the respondent's thinking. IDEO puts it this way: "You'll use this method while you're conducting an interview and start with really broad questions like "Do you save much money?" or "How was your harvest this year?" Then, by asking why five times you'll get some essential answers to complicated problems. This can be a great method to use if you're trying to get at the human and emotional roots of a problem."^[24]
- Prototyping: In this space, the entrepreneur creates and tests inexpensive, scaled-down versions of a

22 Christine Harris, Margaret Collins, and Dennis Cheek. *America's Creative Economy: A Study of Recent Conceptions, Definitions, and Approaches to Measurement across the USA*. National Creativity Network and Creative Alliance. August 2013. <https://www.centerforcreativeeconomy.com/wp-content/uploads/2015/10/AmericasCreativeEconomyFULLReport.pdf>

23 IDEO.org. *The Field Guide to Human Centered Design*. 2015. https://bestgraz.org/wp-content/uploads/2015/09/Field-Guide-to-Human-Centered-Design_IDEOorg.pdf

24 "The Five Whys." *Design Kit*. n.d. <http://www.designkit.org/methods/66>

product with features or benefits that serve as solutions for previously identified problems. This could be tested internally among employees, a process known as *dogfooding*, or externally with potential customers. This is an experimental phase.

- **Testing:** Designers apply rigorous tests of the complete product using the best solutions identified in the prototyping space.

WHAT CAN YOU DO?

Every Day a Little Closer

Some examples of everyday items that can be improved through design thinking are sinks on top of toilet cisterns that save water by refilling the cistern with the water you wash your hands with, video doorbells, and smart lightbulbs. Try to think of an improvement to one of your everyday items.

Design Thinking Tools

There are numerous design thinking tools aimed to aid or stimulate your design thinking activities. They stem from organizations dedicated to design thinking like IDEO and Google Ventures. While methodologies incorporate processes and techniques, tools are resources that enable such approaches. These may be activities, or templates that facilitate the approach.

- **Innovation Flowchart:** A sample innovation flowchart may map out the details of the process. The structured overview serves as an organizational tool in the development process.
- **Question Ladder:** A tool that helps you ask the “right” questions by refining your questions ([Figure 6.15](#)). Asking the “wrong” questions can yield meaningless or less-than-adequate results.

QUESTION COMPLEXITY						
Simple	←				→	Complex
	IS	DID	CAN	WILL	WOULD	MIGHT
WHO	Who is	Who did	Who can	Who will	Who would	Who might
WHAT	What is	What did	What can	What will	What would	What might
WHERE	Where is	Where did	Where can	Where will	Where would	Where might
WHEN	When is	When did	When can	When will	When would	When might
HOW	How is	How did	How can	How will	How would	How might
WHY	Why is	Why did	Why can	Why will	Why would	Why might

Figure 6.15 A question ladder can help refine questions. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

- **Design Thinking Tool Kit:** There are various tool kits for select audiences. For example, the “design thinking for educators” toolkit has design thinking resources related to education. A typical tool kit includes a wide assortment of resources with methods and instructions to help you put design thinking

into action.

- IDEO Design Kit: IDEO offers an approximately 200-page free PDF, “The Field Guide to Human Centered Design,” with activities on mindsets, ideation, inspiration, implementation and a few case studies: <http://www.designkit.org/resources/1>.
- Google Ventures Design Sprint: A five-day design-thinking exercise that helps resolve questions through design, prototyping, and testing: <https://www.gv.com/sprint/>.
- Design Thinking Mix Tapes: Stanford’s Design School offers three “mixtapes” that serve as guides through a half day of design thinking work in the areas of understanding, experimentation, and ideation: <https://dschool.stanford.edu/resources/chart-a-new-course-put-design-thinking-to-work>.
- WE THINQ: Software designed to enable collaboration in innovation management: <https://www.ideaconnection.com/software/we-thinq-258.html>.

ENTREPRENEUR IN ACTION

BitGiving and Design Thinking

At age twenty-two, Ishita Anand created India’s first live social crowdfunding platform that enabled artists, engineers, and creators to collaborate and raise funds for special causes by verifying causes and how the funds would be used, while charging a small percentage of the funds raised as a fee. Within five years of its inception, her social enterprise, called BitGiving, has led efforts to address problems through social change. The firm has contributed to various social campaigns related to children, women, education, health, and disaster among others. The firm partnered with charities and other organizations to raise funds for India’s National Ice Hockey team to compete in Kuwait at the World Cup and for the victims of the 2015 Nepal earthquake through the crowdfunding platform and other social media platforms such as Twitter.^[25]

As India’s first social crowdfunding platform, BitGiving literally aimed to solve problems through social change. Describe some design thinking activities that would have been useful to Anand at BitGiving’s inception.

As of September 2018, the company closed its website abruptly and reportedly shut down. While the exact reason for its failure is unknown, some reasons the venture could have failed were insufficient capital, regulation, management problems or strategic misalignment, or even poor timing. Failure is common in entrepreneurship, and conferences dedicated to failure are even conducted around the globe (FailCon is sort of the TED Talk of failure).

- How could the design thinking process have helped BitGiving from the outset?

6.4 Lean Processes

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25 “BitGiving.” Crunchbase. n.d. <https://www.crunchbase.com/organization/bitgiving#section-overview>

Learning Objectives

By the end of this section, you will be able to:

- Discuss the lean process methodology
- Understand the phases of the lean problem-solving process.

You have learned about different problem-solving approaches that entrepreneurs take to lead their startups and work with others. Most of these approaches have had to do with the entrepreneur's cognitive or creative mindsets. Now we will learn about an approach that is more rooted in process, called *lean process*. Lean problem solving has been used as an entrepreneurial methodology in new and emerging ventures, and it's interesting that it comes from a large corporate, manufacturing background that focuses on efficiencies. The Six Sigma methodology, pioneered at Motorola in the 1970s and 1980s, and adopted by many companies, is a disciplined, data-driven approach that provides companies tools to improve the capability of their business processes. According to the American Society for Quality, "Six Sigma views all work as processes that can be defined, measured, analyzed, improved and controlled. A set of qualitative and quantitative tools is used to drive process improvement. This increase in performance and decrease in process variation helps lead to defect reduction and improvement in profits, employee morale, and quality of products or services."^[26] GE copied it and created the "Process Excellence" programs that millions of managers and others have taken to get certified at various "belts." Although Six Sigma and Process Excellence do not fit strictly in terms of entrepreneurship, as they are used mainly by large, mature companies, many of the methods fit in the lean model.

Toyota pioneered the lean process in the 1980s. The term "lean manufacturing" is the most common, but it is much more than manufacturing. The **lean process** is a systematic method for the maximizing of continuous improvement and the minimization of surplus or unused material in the production of a process. The entrepreneur begins the startup with a sense the original product will be the product carrying the organization to success in the long term. In most cases, the good or service will require modification to maintain a process, technology, or up-to-date product offering. Lean problem solving means the entrepreneur's entire team scans both the company's internal and external environments for continuous improvement and methods for bringing additional revenue to the startup by cost improvement processes that promote sustainable value. The **external environment** encompasses customers, industry trends, and competition. The **internal environment** comprises the factors inside the enterprise, such as employees, and internal practices and processes. In lean manufacturing, for example, improving efficiencies in the internal environment should lead to advantages in the external environment (whether that be cost savings to customers, competitive advantage from more output/superior product, etc.).

For example, every mile saved per day per UPS truck driver results in approximately \$50 million in savings per year, according to Juan Perez, the company's chief information and engineering officer. Using customer data and artificial intelligence, the company created a system dubbed ORION, which is an acronym for On-Road Integrated Optimization and Navigation.^[27] To date, the system has resulted in \$400 million in savings to UPS. By applying the lean process, everything that UPS saves on the input (by reducing mileage) leads to savings on the output, which leads faster deliveries, lower costs for consumers, and more profit for UPS.

26 American Society for Quality. "What Is Six Sigma?" n.d. <https://asq.org/quality-resources/six-sigma>

27 Juan Perez. "UPS' Approach to Innovation and Technology." Presentation sponsored by J. Mack Robinson College of Business, Georgia State University, Atlanta, GA. March 28, 2019.

Lean Problem-Solving Process

The lean problem-solving process is a cycle of observation, assessment, and continual evaluation. As shown in [Table 6.1](#), this cycle typically involves eight specific steps.

Steps in the Toyota Lean Problem-Solving Process

Step	Action
Step 1	Clarify the problem.
Step 2	Analyze the problem (genchi genbutsu is the Toyota practice of thoroughly understanding a condition by confirming information or data through personal observation at the source of the condition; the Japanese phrase essentially means “go and see”). ^[28]
Step 3	Set targets.
Step 4	Identify root causes. Asking, “Why?” repeatedly can narrow down the factors to a root cause.
Step 5	Develop countermeasures by asking, “What is the specific change we want to make?” and involving others in the problem-solving process.
Step 6	Implement the countermeasures and see them through.
Step 7	Monitor results.
Step 8	Standardize processes that succeed. Lean problem solving is about learning more about the problem itself and its deep causes in context.

Table 6.1 The lean problem-solving, step-wise process allows the business to observe, assess, and continually evaluate.

ARE YOU READY?

Too Much Too Late?

Many entrepreneurs create a startup with an idea that they develop without any feedback from potential customers, relying on their own knowledge or assumptions about the market. Consider the story of Rapid SOS: <https://hbr.org/2018/05/do-entrepreneurs-need-a-strategy>. What would most likely happen when they decided to go forward with their product? Will it be a fit to the customer’s needs or solve their problems? How is lean process different from this?

28 “Genchi Genbutsu.” *Lean HE Glossary*. n.d. <http://www.leanhe.org/lean-he/glossary#TOC-Genchi-Genbutsu>

Lean Problem-Solving Phases

Observation is the phase in which the entrepreneur studies the challenge and notes all facets of the challenge requiring solution. In this phase, the entrepreneur asks questions and conducts research about the change needed for a successful product, outcome, or service. The entrepreneurs must determine why the change is needed. What is the purpose of the endeavor? Feedback is extremely important in this phase.

For example, a community asked a group of entrepreneurs to help address the youth obesity problem in a middle school. The entrepreneurs began to study the intake of food by the children and determined that both the content of the school lunch menu and the lifestyle of the majority of the children were affecting the obesity rate in the community. They then defined the purpose of the project as finding a low-cost, low-risk method of changing the lunch menu and agreed that the primary outcome would be a 30 percent reduction in the obesity rate of the children. The entrepreneurs began to assess the cost of changing the lunch menu and observing what else the kids ate. The entrepreneurs discovered that the lunch menu change required to reduce the obesity rate was beyond the financial capability of the school district. Research also showed that many of the children, products of single-parent homes, were eating high-calorie, high-fat, take-out foods for dinner. Further observation revealed that the children did not engage in physical activity after hours because the local surroundings were not safe. The community needed a process to transform the wellness of the children, and the entrepreneurs recommended using a lean process approach to help the children as quickly as possible.

After the observation of the problem comes **assessment**, the phase in which the entrepreneur experiments and analyzes the potential process and its capabilities. The entrepreneur leverages creative tools and resources to arrive at a solution and assesses each step of a possible solution. Each step must add value to the solution, or that step in the solution is unnecessary. In addition, the step must be capable of solving the issue and add flexibility to the solution. How is the process or product being improved? In this phase, a prototype of the product is developed and delivered. The entrepreneur must ask the customer if all needs and wants are satisfied with the prototype. If the prototype is being developed for mass production, surveying customers about potential sales is essential. In the school lunch example, the school system would have been the customer of the new food menu (prototype) in the assessment phase.

Evaluation is the phase in which behaviors are analyzed to assess success. The entrepreneur continually studies each phase of the solution to observe the effectiveness of outcomes desired by the client. The entrepreneur ensures that transformation is built into the habits of the school to obtain, maintain, and develop the desired outcomes.

In a real-world example of a company applying lean processes, the New Balance Company, which designs and manufactures both athletic and casual shoes, used a batching approach in the early 2000s that organized production by departments, so that all of the cutting took place in one department, all of the stitching took place in another, and so forth. While it seems that batching tasks would improve efficiency, at New Balance, it meant that production of one pair of shoes took nine days. Executives observed piles of inventory sitting between floors and departments, and noticed employees waiting while there were delays in the production line. They also noticed that the pay structure contributed to the piles of works in process because employees were paid by the piece, which encouraged them to produce as much as possible.

The company applied lean principles to rearrange the production floor by value streams, or the making of a product by sharing similar processing steps. On one side was “cut and stitch” products using US materials of leather and mesh, while another side used premade products from overseas for soles, inserts, and kits. This change cut the time to make a pair of shoes down to four hours, meaning that domestic plants could ship some orders in twenty-four hours, while competitors may need as much as 121 days to ship when they

outsourced manufacturing to Asia.

An often-used lean problem-solving tool is whiteboarding ([Figure 6.16](#)). **Whiteboarding** is a type of graphing that permits the entrepreneur to plot each step in a process to build comprehension and detailing of the process. The entrepreneur draws each step on the whiteboard using a linking-type diagram, and draws arrows to show how processes affect other processes. Seeing the flow of the process allows the entrepreneur to note where functions in the process are duplicated or inconsistent.



Figure 6.16 Whiteboarding is a technique that can help entrepreneurs visualize and analyze processes. (credit: "whiteboard man presentation write" by "StartupStockPhotos"/Pixabay, CC0)

For example, in a community garden, storing tools, such as hoes and hand trowels for weeding, in different sheds wastes time when preparing to begin the process of weeding. These tools should be stored collectively to eliminate multiple trips and wasted time. Seeing the process on a whiteboard or other medium brings awareness to how processes can be improved. After the process is changed, it is graphed again for further scrutiny.

ENTREPRENEUR IN ACTION

The Origin of Lean

Would it surprise you to know the origin of lean, in modern times, is considered to be Henry Ford's production line? Although we don't necessarily think of the creation of automobiles as an entrepreneurial venture in today's world, Henry Ford was truly an entrepreneur for his time when the manufacture of automobiles was just beginning. Not only did he recognize the opportunity inherent in the sale of automobiles, he recognized the need to create an efficient process for automobile production that could decrease costs and, consequently, the selling price of the vehicle. As the first entrepreneur to join the use of interchangeable parts with moving conveyance to develop fabrication processes, Ford was able to turn over inventory in a very short time; however, Ford's process could not deliver variety. In fact, Ford was quoted as saying of the Model T's color, "You can have any color as long as it's black."^[29] It had the fastest drying time; hence, it was the only color he used for a number of years.

The Ford system was built around one static product. In the 1930s, when the market demanded product variety, the company was not set up to address this challenge. Kiichiro Toyoda ([Figure 6.17](#)), the second president of Toyota Motor Corporation, visited the Ford plant in Michigan to learn more about their application of the assembly line concept. After observing, he proposed a new production system that would strive to “right size” equipment to better match tasks and the volume of work, as well as introducing quality assurance steps in each sequence of the work process. Toyoda’s approach shifted the focus from machinery to process, optimizing efficiency while maintaining quality.



Figure 6.17 Kiichiro Toyoda introduced new ways to improve processes. (credit: “Kiichiro Toyoda” by “Scanyaro”/Wikimedia Commons, Public Domain)



Key Terms

adaptive model method of entrepreneurial problem solving that seeks solutions in ways that are tested and known to be effective

assessment lean problem-solving process phase in which the entrepreneur experiments and analyzes the potential process and its capabilities

brainstorming generation of ideas in an environment free of judgment or dissension with the goal of creating solutions

clarify first step of the creative process, which involves recognizing the existence of a gap between the current state and a desired state

communication skills skills entrepreneurs use to pool resources for the purposes of investigating solutions leading to innovative problem solving and competitive advantage

creativity development of original ideas

critical thinking complex analysis of a problem or issue with the goal of solving the problem or making a decision

crowdsourcing teams of amateurs and non-experts working together to form a solution to a problem

data analysis process of analyzing data and modeling the data into a structure that leads to innovative conclusions

decisiveness ability to make a quick, effective decision, not letting too much time go by in the process

design thinking method to focus the design and development decisions of a product on the needs of the customer, typically involving an empathy-driven process to define complex problems and create solutions that address those problems

develop stage in which the entrepreneur takes the list of ideas generated and tests each solution for feasibility

entrepreneurial problem solving process of using innovation and creative solutions to close the opportunity gap by resolving complex societal, business, or technological problems

evaluate stage in which the final solution is assessed

evaluation lean problem-solving process phase in which behaviors are analyzed to assess success

external environment outside the enterprise and encompasses customers, industry trends, and competition

hackathon event, usually hosted by a tech company or organization, which brings together programmers and workers with other degrees of specialization within the company, community, or organization to collaborate on a project over a short period of time

human-centered design focuses on people during design and development

ideate stage of the creative problem-solving process leading to the detailing and formation of idea generation by the entrepreneur

implement means to enact the plan and test for success

innovative model method of entrepreneurial problem solving that uses techniques unknown to the market and that bring competitive advantage to an organization

internal environment comprises the factors inside the enterprise, such as employees, and internal practices and processes

lean process systematic process for the maximizing of continuous improvement and the minimization of surplus or unused material in the production of a process

need awareness occurs when the entrepreneur notes a gap between societal or customer needs and actual circumstances

observation lean problem-solving process phase in which the entrepreneur studies the challenge and notes all facets of the challenge requiring solution

petitioner problem solvers problem solvers who see a problem and ask others for solution ideas

resourcefulness ability to discover clever solutions to obstacles

self-regulating problem solvers problem solvers who are autonomous and work on their own, without external influence; they have the ability to see a problem, immediately visualize a possible solution to the problem, and seek to devise a solution

storyboarding process of presenting an idea in a step-by-step graphic format

team creativity process of a team creating an unexpected solution for an issue or challenge

theorist problem solvers problem solvers who see a problem and begin to consider a path toward solving the problem using a theory

whiteboarding type of graphing that permits the entrepreneur to plot each step in a process to build comprehension and detailing of the process



Summary

6.1 Problem Solving to Find Entrepreneurial Solutions

Problem solving involves more than making decisions. Problem solving is a necessary component of entrepreneurial genesis, used to manage your business and helpful in addressing everyday personal situations. Entrepreneurs must know their personal strengths and capitalize on applicable problem-solving methods to create innovative products. Moving a startup ahead of the competition requires the entrepreneur to use all problem-solving sources and skills in the entrepreneur's tool box. Problem-solving models can be adaptive or innovative, the latter being more common among entrepreneurs. Problem-solving skills include critical thinking, communication, decisiveness, resourcefulness, business and industry awareness, and an ability to analyze data. There are various types of problem solvers, including self-regulating, theorist, and petitioner problem solvers.

6.2 Creative Problem-Solving Process

The creative problem-solving process is a logical process. The steps to the creative problem-solving process are clarify, ideate, develop, implement, and evaluate. Each step is an aid to creating a solution. The steps are repeated cyclically until the entrepreneur develops an innovative solution. When entrepreneurs experience creativity block, tools to alleviate the block are available. These tools include crowdsourcing, brainstorming, and storyboarding. Each of these tools assist the entrepreneur in innovative thinking.

6.3 Design Thinking

Design thinking in business and entrepreneurship was made prevalent by David Kelley, founder of Stanford University's Design School and cofounder of design company IDEO. Design thinking, which espouses an HCD approach, can be applied beyond product and graphic design to include the design of social policy, business strategy, services, and digital interactions. The five stages as espoused in Stanford's design thinking model are empathizing, defining, ideating, prototyping, and testing. There are numerous design thinking tools that help develop and carry out these processes from various organizations and companies, ranging from IDEO to Google.

6.4 Lean Processes

Lean process is a systematic process for maximizing continuous improvement through minimizing surplus or unused material in the production of a current process. With origins in manufacturing, the lean process can be

applied to internal organizational processes as well as external product development. Lean process uses observation, assessment and evaluation, and whiteboarding techniques to solve problems.



Review Questions

1. What is the relationship between entrepreneurial thinking and problem solving?
2. What are the key aspects of the two types of problem-solving methods the entrepreneur uses to problem solve?
3. What are the key skills entrepreneurs need to arrive at innovative solutions?
4. What are the differences in the three major types of entrepreneurs?
5. List and describe the steps an entrepreneur uses in the specific and logical process of creativity?
6. What are the key aspects of the brainstorming process?
7. What is the main advantage of using teams to create a solution?
8. Discuss the advantages of storyboarding.
9. What are the differences between the design thinking process and the problem-solving process and why are they important?
10. What are the steps in human-centered design thinking? Briefly describe each.
11. What is human-centered design?
12. Observation is the phase in which entrepreneurs explore problems that requires solution. Which is not a step in this phase?
 - A. talk to clients and conduct research for potential solution
 - B. determine if change is needed
 - C. experiment and analyze potential solution
 - D. None of these options is correct.
13. What are some advantages of the lean process?



Discussion Questions

1. Which method do you think applies more to entrepreneurship, the innovative or adaptive problem-solving method? Do you see yourself as using one method more than the other in your entrepreneurial endeavors? If so, which one and why?
2. Do you think it is important for the entrepreneur to understand and develop all the problem-solving skills to manage a successful startup? Why or why not?
3. Which of the three types of entrepreneurs relies more on the innate skill of the entrepreneur?
4. How does the fishbone process aid entrepreneurs in finding the root cause to problems worth solving?
5. Discuss the different methodologies an entrepreneur might use when experiencing creativity block.

6. Discuss the crowdsourcing process, including how contributors to the solution are rewarded and how different platforms fit with different types of businesses.
7. Why is empathy needed in defining problems?
8. Why is it important to continuously ask for feedback and improve the current design?
9. What are some ways you can determine the true root cause of a problem and not just its symptoms?
10. What are the best ways to implement lean thinking in your company?



Case Questions

1. The team at AMD, the manufacturer of a chip processor, has a good grasp on how software giants build products around its processors. The teams at AMD design processors to feature attractive capabilities to the software giants by seeking input from researchers and designers on the AMD team who possess knowledge of current and upcoming trends. New processors will incorporate these trends in design. After identifying what type of problem-solving style this would be an example of, incorporate the key skills entrepreneurs must have according to the chapter and apply them in terms of the AMD team.
2. Tamika, a young entrepreneur, has been purpose-driven toward social change in her rural community. She has created solutions for pesticide runoff, erosion problems, and toxic well water. She has decided to focus more on energy conservation and local air quality. Her first client is interested in wind as a power source. Tamika is unfamiliar with wind power and needs to learn about innovative solutions for residential application. How might Tamika use creative problem solving methods to develop solutions for her client's request?
3. Based on input from his second-grade students, New York teacher Michael Schurr was able to redesign his classroom to better serve the students' needs. In the book *Design Thinking for Educators*, he redesigned the cubby space to make the room semi-private and lowered the boards so that students could see the content. He made all of these changes after asking the students for input. What are some ways you could improve your classroom if your instructor asked your opinion, using design thinking tools?



Suggested Resources

6.1 Problem Solving to Find Entrepreneurial Solutions

Tony Robbins' tips on decisiveness: <https://www.tonyrobbins.com/stories/unleash-the-power/be-decisive/>

6.2 Creative Problem-Solving Process

<https://www.nngroup.com/articles/storyboards-visualize-ideas/>

<https://www.studiobinder.com/blog/downloads/storyboard-template/>

<https://www.mturk.com/>

<https://www.mindtools.com>

6.3 Design Thinking

Google Ventures Design sprint: <https://www.gv.com/sprint/>

IDEO Design Kit: <http://www.designkit.org>

Stanford Design Thinking Mix Tapes: <https://dschool.stanford.edu/resources/chart-a-new-course-put-design-thinking-to-work>

Stanford Design Thinking Process Diagram: <https://dschool.stanford.edu/executive-education/dbootcamp>

6.4 Lean Processes

Lean Enterprise Institute: <https://www.lean.org/WhatsLean/>

Telling Your Entrepreneurial Story and Pitching the Idea

Figure 7.1 A pair of entrepreneurs pitches their venture at the “Risk City” Global Entrepreneur Week in Memphis, Tennessee. (credit: modification of “Risk City. Global Entrepreneur Week.” by Brad Montgomery/Flickr, CC BY 2.0)

Chapter Outline

- 7.1 Clarifying Your Vision, Mission, and Goals
- 7.2 Sharing Your Entrepreneurial Story
- 7.3 Developing Pitches for Various Audiences and Goals
- 7.4 Protecting Your Idea and Polishing the Pitch through Feedback
- 7.5 Reality Check: Contests and Competitions



Introduction

Sara Minkara, a Muslim American of Lebanese decent, lost her eyesight at age seven because of a genetic disorder. She grew up experiencing ethnic discrimination and mistreatment because of her disability. As a college student in the United States, Minkara realized that she had access to privileges that other children in her native Lebanon did not. Her desire to make things better for youth like her developed into a passion for empowering blind children to get engaged in their communities. The problem: Many societies marginalize visually impaired people and may even see them as a burden. This bias can be attributed in part to physical and cultural constraints and habits that create de facto limitations on their ability to function freely and effectively in those societies. The solution: educational programs and public awareness campaigns that empower visually impaired persons from a young age and provide them with assertiveness training.

At 27, Minkara founded Empowerment Through Integration (ETI), a social enterprise that empowers youth with visual impairments in the Middle East-North African region and in the United States. The organization has grown from a summer camp to a small movement that assists more than 3,000 individuals across Lebanon and the United States. The mission and vision of ETI are to develop an inclusive society that transforms the global

social stigma against disabilities and empower blind youth.^[1] One of Minkara's signature events is "Dining in the Dark," which is designed to expose participants to the life of a blind person and educate them about the potential in all people, particularly those who are disabled, including the visually impaired.

7.1 Clarifying Your Vision, Mission, and Goals

Portions of the material in this section are based on original work by Mark Poepsel and produced with support from the Rebus Community. The original is freely available under the terms of the CC BY 4.0 license at <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

Learning Objectives

By the end of this section, you will be able to:

- Clarify the vision statement, mission statement, and goals for your enterprise
- Define and develop a problem-solution narrative that is compelling
- Define and develop a value proposition that is credible and appealing to customers and investors

Entrepreneurs can sometimes be compared to superheroes: They solve problems. They wield great power and responsibility. They're willing to take on risks the way superheroes are willing to take on villains. They are undaunted in the face of failure. They seek solutions and continuous improvement of their products with their customers in mind so that their solutions go beyond addressing their individual needs. When an entrepreneur succeeds, others say "If only I'd thought of that!"

But thinking isn't enough. And even *doing* isn't enough. Successful entrepreneurs also understand the need to *communicate* the origin and value of their venture. They not only solve problems, they tell stories of crises averted, foes bested, and painful defeats from which they learned how to start anew. After all, what's a hero without an origin story and a list of tales, battles lost, and markets won?

In superhero narratives, these origin stories are sacred lore. For an entrepreneur, a problem-solution narrative is like the origin story for their offering. The **problem-solution narrative** concisely introduces a specific problem that affects many people and presents the good or service as an innovative, unique, and insightful solution. Here are some classic problem-solution narratives in advertising and in corporate origin stories to think about as you consider how to craft a quick, compelling problem-solution narrative.

- A young man starting high school lacks muscle mass. He drinks milk and gets stronger, earning the respect of his classmates.
- Young people, pictured in silhouette, walk around a city looking bored with life. Then, they turn on their new MP3 players and start dancing in the streets. Their world is set ablaze in color and sound.
- A man literally turns into Joe Pesci when he gets hungry. He eats a candy bar and turns back into his normal self.

These may not be the greatest stories ever told. You're not going to get a National Book Award for a Snickers commercial, but these are memorable narratives about people who have a problem that the product in question can solve.

To stay focused through repeated series of successes and failures, you need more than a problem-solution narrative: You need a vision and, in turn, a mission statement and goals. You learned about these in [The Entrepreneurial Perspective](#), but you should revisit them as you develop your story and refine how to *pitch* that

1 "About Eti." *Empowerment through Integration*. n.d. <https://www.etivision.org/about-eti>

story to potential investors, customers, and employees. A **pitch** is a formal presentation in which you ask for something. It is delivered (usually) to potential investors in a startup. More on pitches later in the chapter.

Sara Minkara’s vision statement may be defined as wishing to live in a world where visually impaired people are not discriminated against. Her venture’s *mission* is to establish a well-functioning nonprofit organization showing people in the United States, the Middle East, and North Africa the humanity and value in those with severely impaired eyesight. Minkara’s *vision*, imagining the organization’s long-term future, is to make it a global leader in providing services to visually impaired people. Specific *goals* include hosting events, developing educational programs, organizing awareness campaigns, and, of course, fundraising. Following this example of mission, vision, and goals, let’s break down each concept and consider how they work broadly and apply to your potential venture.

Vision

A vision statement, as you saw in [The Entrepreneurial Perspective](#), outlines the venture’s broader purpose, what the entrepreneur sees the venture growing into in the future. Before you can create a focused mission statement and goals answering who you are, what you do, and what you plan to do in the future, you must develop a vision statement that allows you look into the future to answer this question: “What might we become someday if our organization were the best possible version of itself?”

Drafting a vision statement is an exercise in **ideation**—a purposeful process of opening up one’s mind to new trains of thought that branch out in many directions from a stated purpose or problem—in this case, with the goal of generating new possibilities for goods, services, or processes to make your venture successful. A vision statement is more open-ended than a mission statement. For example, [Table 7.1](#) shows Amazon’s vision and mission statements. Notice how they differ.

Amazon’s Vision and Mission Statements^[2]

Amazon’s Vision Statement	Amazon’s Mission Statement
To be Earth’s most customer-centric company, where customers can find and discover anything they might want to buy online	We strive to offer our customers the lowest possible prices, the best available selection, and the utmost convenience

Table 7.1 Notice the differences in Amazon’s vision and mission statements. The vision statement is broader than the mission statement and looks to the future.

To create a strong vision statement, look at the broader field in which your organization operates. Be general. State a dream that is not currently attainable but that defines what your collective outcomes would be in a best-case scenario. Crafting a vision statement enables your organization, as a team, to identify key areas for potential growth *and* key social influences you can have, but it is important to stay focused on changes in your industry or sector as a general rule of thumb and to revisit your vision when those may warrant a change. For example, Netflix started out with the goal of providing optimum value and convenience for customers renting DVDs but as entertainment consumption platforms evolved it needed to adjust, and it has since shifted into streaming content for television. The company’s 2019 vision statement is “Becoming the best global entertainment distribution service.”^[3]

2 “Amazon Mission and Vision Statement Analysis.” *Mission Statement Academy*. June 19, 2019. <https://mission-statement.com/amazon/>

When crafting a vision statement, write questions beginning with, “How might we...?” or statements starting with, “In a perfect world, our organization would...” Craft a vision statement that hinges on the organization’s service goals and turns it into a lasting social good. (You should not promise to create world peace or give everybody a puppy, but you should look at how businesses operate in your field and dream of doing better strategically and socially.) These steps provide a good starting point:

1. State how your organization would function in a dream scenario.
2. Connect your organization’s dreams to broader hopes for progress.
3. Define how you’re going to make the world a better place in the future through your products and services.

Dreams do not have to be wild to be broadly appealing or influential. The purpose of the vision statement is not to set unattainable goals but to open minds in the organization. If the vision statement has no grounding in reality, it can easily be written off; if it focuses on market share and product development (that is, tangible, mission-oriented things), the point is lost. Imagine your best team doing its best work with future capabilities and affordances made possible by other entrepreneurs and creators like you, and then state clearly what your influence as world changers could be. Again, the goal is not to develop unmanageable expectations or demand constant innovation from employees and contributors who have jobs that sustain day-to-day operations. The purpose is to develop a conversation about what is possible for the enterprise. For smaller startup enterprises (a deli or coffee shop, for example), the vision can be simpler but still focused on a unique experience they want to create for their customers. In other words, it should still be aspirational, with a link to the mission statement. [Table 7.2](#) lists the vision statements of some companies across a variety of industries.

Example Vision Statements

Entity	Vision Statement
Alzheimer's Association	A world without Alzheimer's disease
Teach for America	One day, all children in this nation will have the opportunity to attain an excellent education
Creative Commons	Realizing the full potential of the Internet—universal access to research and education, full participation in culture—to drive a new era of development, growth, and productivity
Warby Parker	To offer designer eyewear at a revolutionary price, while leading the way for socially conscious businesses
IKEA	To create a better everyday life for the many people

Table 7.2 Strong vision statements are forward-thinking.

A vision statement does not have to be long to be strong. One well-known vision statement contains only fifteen words: “At IKEA our vision is to create a better everyday life for the many people.”^[4] This vision statement focuses on what IKEA hopes to accomplish, and what its employees can aspire to be—people who

3 “Netflix Mission and Vision Statement Analysis.” *Mission Statement Academy*. July 12, 2019. <https://mission-statement.com/netflix/>

4 “Vision and Business Idea.” *IKEA*. n.d. <https://www.ikea.com/gb/en/this-is-ikea/about-us/vision-and-business-idea-pub9cd02291>

make everyday life better for others. Note the phrase “the many people.” This is purposeful: IKEA makes mass-marketed products and chooses to align its vision with its targeted consumers: many people. This vision statement is *not* framed as a political statement; rather, it is an ideal established for the global brand, and it indicates a broad positive outcome. IKEA’s statement is almost pure vision. A vision statement should connect an organization’s day-to-day work to a universal ideal rather than trying to draw a roadmap for implementation.

That being said, alongside its vision, the company follows up with what IKEA calls its “business idea.” It states: “Our business idea is ‘to offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.’” This is something of a value proposition and a mission statement wrapped up in one. A **value proposition** explains what it is, exactly, that an organization or firm does that people will pay for (or contribute, to in the case of a nonprofit), and it is a central point in any pitch. We learned about value propositions in [Identifying Entrepreneurial Opportunity](#) as being integral to identifying opportunities, and you will learn how they figure into your business model in [Business Model and Plan](#). But the discussion in this chapter is about how and why the value proposition needs to be articulated.

An example of a complicated vision statement is Coca-Cola’s.^[5] While they are a very successful company, in the vision and mission statements published on their website, the distinctions between each can be difficult to discern. [Figure 7.2](#) shows a large collection of statements and comments titled “Mission, Vision, & Values” on Coca-Cola’s website that includes sections on workplace culture, market focus, and “working smart.” These concepts, taken together, cover most of what is discussed in this section. Coca-Cola is not committing sins of omission with its “Mission, Vision, & Values” page. If anything, it tries to say too much. Also at issue is *how* these ideas are stated. For a company with massive global reach and some of the best, most memorable marketing moments, the relatively lifeless nature of its vision stands out.

Coca-Cola’s Mission, Vision, And Values
<p>Our vision serves as the framework for our Roadmap and guides every aspect of our business by describing what we need to accomplish in order to continue achieving sustainable, quality growth.</p> <ul style="list-style-type: none"> • People: Be a great place to work where people are inspired to be the best they can be. • Portfolio: Bring to the world a portfolio of quality beverage brands that anticipate and satisfy people’s desires and needs. • Partners: Nurture a winning network of customers and suppliers, together we create mutual, enduring value. • Planet: Be a responsible citizen that makes a difference by helping build and support sustainable communities. • Profit: Maximize long-term return to shareowners while being mindful of our overall responsibilities. • Productivity: Be a highly effective, lean and fast-moving organization.”
<p>Source: “Mission, Vision, and Values.” The Coca-Cola Company. (http://www.coca-colacompany.com/our-company/mission-vision-values)</p>

Figure 7.2 This is Coca-Cola’s mission, vision, and values. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

This is a classic case of *telling rather than showing*. IKEA and Coca-Cola arguably have a similar vision. They want to make life a little bit better for people in an everyday way. But with this series of statements, Coca-Cola tries to cover all possible types of vision for almost every major relationship or facet of the corporation imaginable. Coca-Cola has a separate mission statement on its website, shown in [Figure 7.3](#).

5 “Mission, Vision, and Values.” *The Coca-Cola Company*. n.d. <http://www.coca-colacompany.com/our-company/mission-vision-values>

Coca-Cola's Roadmap
<p>Our Roadmap starts with our mission, which is enduring. It declares our purpose as a company and serves as the standard against which we weigh our actions and decisions.</p> <ul style="list-style-type: none"> • To refresh the world • To inspire moments of optimism and happiness • To create value and make a difference
<p>Source: "Mission, Vision, and Values." The Coca-Cola Company. (http://www.coca-colacompany.com/our-company/mission-vision-values)</p>

Figure 7.3 This is Coca-Cola's mission statement. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

While this is shared as a mission statement, it reads like a vision statement. The value proposition is relegated to an afterthought in convoluted corporate-speak. This is all tied into a vague "2020 Vision," which is not truly a vision statement but appears more like a wrapper for the "Mission, Vision, & Values" content.^[6] It is not clear what leadership, employees, business partners, or consumers are supposed to do with this information.

Coca-Cola is one of the world's most recognizable brands. The company can grow by creating new products and by recapturing market share from competitors. It is essential, if and when Coca-Cola revises these statements, that it succinctly speak to all of those groups with one voice rather than trying to address each independently.

ARE YOU READY?

Can You Help Coca-Cola Rework Its "2020 Vision"?

Can you revise Coca-Cola's vision statement so that it more clearly states how the corporation can be a force for good in the world? Read [Coca-Cola's "Mission, Vision, and Values" page \(https://openstax.org/l/52CokeMission\)](https://openstax.org/l/52CokeMission) then draft a new vision statement that alludes to hopes and potential accomplishments in the context of broad, positive, future outcomes for everyone the corporation comes into contact with.

Crafting a vision statement for an entrepreneurial endeavor is different from redrafting Coca-Cola's vision statement. A startup is in the process of defining itself, which can make it challenging to establish a far-off vision, but crafting and adhering to a vision statement can remind leaders and employees what they are capable of and what their market is all about, so it is an important step. A good vision statement is sufficiently broad to allow for your organization to move within its marketplace while still aiming to do some good in the world.

Mission

In the chapter's opening vignette, you learned about a young woman seeking to battle social injustice. Minkara's mission was self-evident. It followed her experience facing prejudice in society. Other entrepreneurial missions may not be as personal or altruistic, but they can still be a force that drives passionate solution seeking. As we saw with Minkara, entrepreneurs often develop a product or service idea

6 "Mission, Vision, and Values." *The Coca-Cola Company*. n.d. <http://www.coca-colacompany.com/our-company/mission-vision-values>

through a difficult or frustrating experience, whether a social injustice or a consumer frustration.

An entrepreneurial mission is a business or nonprofit organization's reason for being. It is expressed as a self-conceptualization in the context of a marketplace and includes a sense of action. In considering a venture's mission, relevant questions are: Who are we? What do we make or do? Why do we exist as an enterprise in the first place? Steve Jobs and Steve Wozniak, cofounders of Apple, had a mission to put personal computing in the hands of everyday consumers, which meant they had to create simple tools (a graphic user interface, mouse, and so on) in parallel with hardware.

A well-developed sense of mission establishes what an organization is and what it seeks to become. Even nonprofit organizations exist in marketplaces. They have to compete for resources and define themselves by the services they provide. Establishing a clear mission helps a nonprofit organization seek funding. It helps entrepreneurs in the for-profit world explain to investors, to customers, and to employees why their "thing," whatever it is, is worth doing.

For example, the American Red Cross, one of the oldest and most well-known relief organization in the United States, has a very specific mission statement: "The American Red Cross prevents and alleviates human suffering in the face of emergencies by mobilizing the power of volunteers and the generosity of donors."^[7] Defining an organization's mission clearly and specifically is essential for success.

A **mission statement**, as you read in the chapter on [Identifying Entrepreneurial Opportunity](#) is a clear expression of an organization's reason for being that defines its primary long-term goal and often includes an abbreviated plan of action for how to reach that goal. A mission statement is written by answering these questions:

- Who are we?
- What do we make or do?
- Why do we exist as an enterprise?

Developing an effective mission statement and adhering to it puts members of an organization on the same page, and it communicates to potential partners and consumers that your organization knows where it is going. Mission statements can be revised, but it's best to get it right at the start. A strong mission statement helps stakeholders prioritize the entity's action steps and should guide decisions.

LINK TO LEARNING

This [Ted Talk from Simon Sinek \(https://openstax.org/l/52TEDSinek\)](https://openstax.org/l/52TEDSinek) is entitled "How Great Leaders Inspire Action." Sinek is the author of two books: *Start with Why* and *Leaders Eat Last*.

When it comes to crafting an effective mission statement, clarity is key: It must be specific. What is left out of a mission statement is often as important as what is kept in. A good mission statement is focused, direct, and honest about the marketplace in question as well as the organization's capabilities. It strikes the right balance between practicality and hope. For example, Patagonia, a well-known outdoor apparel company, has a compelling mission statement: "Patagonia: Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis."

7 "Mission and Values." *American Red Cross*. n.d. <https://www.redcross.org/about-us/who-we-are/mission-and-values.html>

LINK TO LEARNING

Check out this [article on HubSpot about what makes an effective mission statement and tips on how to write them \(https://openstax.org/l/52EffectMission\)](https://openstax.org/l/52EffectMission) to learn more.

An inadequate mission statement might say this: “At Toys Inc., we make the best wooden toys money can buy, and our mission is to continue to grow to be a market leader in the classic toy industry.” A better mission statement might say this: “Toys Inc. is a market leader in North American wooden toy manufacturing. It is our mission to lead the global market in wooden puzzle and wooden toy car manufacturing and to serve customers with fresh versions of classic toys.” Both mission statements leave room for growth, but the second one defines more precisely what the organization is and where it is headed in the long term.

A mission statement should refrain from using clichés since these constrain the specific and unique vision of the venture. It should not limit innovation or creativity, and it should reference consumers or clients.

To create a strong mission statement, start by defining what the organization is. Even in a startup, you have a core problem-solution and an idea of what the product—and therefore the brand—will be. Be specific when defining your organization’s reason for being without limiting your avenues for growth. Include or embed the service mission within the broader mission. Again, the mission statement needs to do the following things with a tone of optimism:

- Define who you are.
- Define what you do now and for whom.
- Define what you want to do in the future.

In a startup, the mission may change substantially in the early phases. Mission statements should not be crafted in a way that limits an organization’s ability to pivot—that is, to adjust the value proposition to better achieve product-market fit (see the [Launch for Growth to Success](#) for a more in-depth discussion of pivoting). And while they should not be impervious to change, revise the mission statement only when it is necessary and helpful to do so. Companies and organizations usually change their mission statement when they have made a major shift (due to an acquisition, pivot to another market, new growth strategy, etc.) or if their purpose has changed in a major way.

For example, the March of Dimes organization was originally founded to serve people afflicted by polio, but with the success of polio vaccinations, the disease was eradicated in the United States. As a result, the March of Dimes changed its mission to focus on preventing birth defects, premature birth, and infant mortality.^[8] In another example, Slack, a venture-backed startup that went public in mid-2019, was founded as a way for online game developers to collaborate. The original venture failed (twice), but the founder noticed that his engineers used the tool for rapid collaboration and did not need email or other functions of Microsoft Windows. Slack quickly communicated this change in a simple mission statement: “Slack is where work flows. It’s where the people you need, the information you share, and the tools you use come together to get things done.”^[9]

One thing should be clear: It is not the purpose of an organization to come up with better mission and vision statements. The purpose of an organization is to provide value to people and try to get paid or supported in

8 Kelly Medwick. “Why, When and How to Change Your Mission Statement.” *Firespring*. February 13, 2018. <https://blog.firespring.com/why-when-and-how-to-change-your-mission-statement/>

9 “Slack Integration.” *FounderHub*. n.d. <https://founderhub.io/integrations/slack>

doing so. The point of crafting mission and vision statements is to assist you to that end. Essentially, your vision statement is your dream, and your mission statement is your strategy in a real-world marketplace. The vision is a statement about why you matter as an organization with a view of what the organization will become in the future, while the mission is a statement about those who might be served by the venture. Refining these statements will help you clarify your entrepreneurial story.

Goals

An organization needs to establish concrete goals for its products and services to remain viable. Goals should be stated in precise terms that are appropriate for the marketplace. For example, a new “white table” Italian restaurant in Chicago needs an initial goal on how it will attract and retain new customers based on its vision and mission, relative to what is already available. A new company’s initial goal is probably not to crush all competition and take over a monopoly position. Instead, it may hope to capture a percentage of a close competitor’s market share or create a new product to reach a niche market. In those instances, goals would be stated as specific outcomes to attract competitors’ customers, or in the case of a niche business (like Spanx), to define a new category of women’s comfort apparel. Lululemon Athletica, which pioneered customer-centered designs for women’s athletic apparel, recently established new growth goals that were consistent with its mission: “Management is hard set on growing the company to \$4 billion in revenue by 2020. This involves growing historically small contributors to the top line, such as men’s, international, and the digital business.”^[10]

Goals can be tactical in the short term too. They should be reasonable, influenced by a detailed understanding of the marketplace and the competition, and attainable. Nothing stunts growth and clouds the path to achieving your vision more quickly than setting unattainable goals and holding members of an organization to impossible standards. Instead, set SMART goals, which you first were introduced to in [The Entrepreneurial Perspective](#). SMART stands for specific, measurable, achievable, relevant, and timely. The best goals clearly communicate all of these elements, as shown in [Figure 7.4](#).

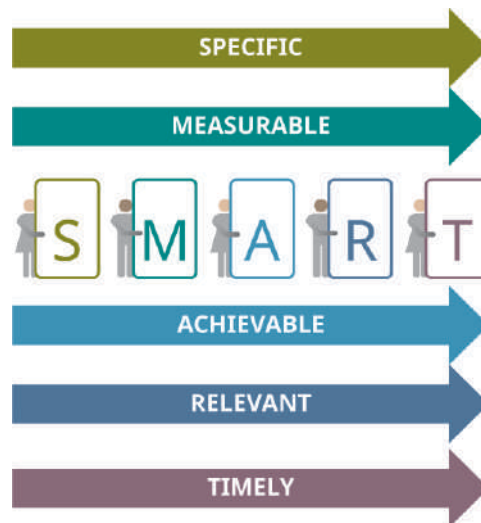


Figure 7.4 Creating SMART goals can help you realize your vision. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

10 John Ballard. “Lululemon Athletica Pushes Forward With Ambitious Goals for 2020.” *The Motley Fool*. December 17, 2017. <https://www.fool.com/investing/2017/12/10/lululemon-athletica-pushes-forward-with-ambitious.aspx>

To break these down, SMART goals should be:

- **Specific:** Your goals should be precise rather than overly broad.
- **Measurable:** You should be able to test, in some quantifiable manner, whether a goal has been met, meaning that there needs to be some method to determine whether the goal has been met.
- **Achievable:** The goal must be attainable; it cannot be so lofty that it cannot be accomplished. On the other hand, the goal should not be so easy that it can be accomplished quickly or with little effort.
- **Relevant:** The goal should be well suited for what you want to accomplish; this means that the goal should be relevant to the outcome needed.
- **Timely:** Each goal needs to have a defined deadline: the time when the goal must be accomplished. What time frame do you have for completing your goals? How does this timeline fit into your overall plan?

Is it a reasonable goal for a specialty soap company to strive to capture 1.5 percent of the global market share two years after incorporating? Let's deconstruct the goal to assess how SMART it is. It is *specific* because it establishes a clearly targeted amount (1.5 percent) of a defined market (global specialty soaps). Market share is *measurable*. We can assume that this is an *attainable* goal for our imaginary startup. Is it relevant? Capturing market share is always *relevant* because it translates to near-term earnings and potential for future earnings at the same time. The goal as stated is also *timely* (within two years). Thus, this is a SMART goal.

LINK TO LEARNING

Check out the University of Virginia's [detailed exercise on writing SMART goals \(https://openstax.org/l/52UVASMART\)](https://openstax.org/l/52UVASMART) to learn more. It includes one example of a SMART goal, and, for each letter, it includes an explanation of how the concept is applied. Follow the link to write your own SMART goal and analyze it using a helpful questionnaire.^[11]

SMART goals are not guarantees of success. As an entrepreneur, you could be wrong about whether a goal is attainable, for example. Or you may fail at measuring outcomes correctly, and your idea may not be as well defined or unique as you thought. Nevertheless, it is much better to set goals with all of these factors in mind than to practice wishful thinking or set abstract goals and hope to reach business benchmarks by luck.

WHAT CAN YOU DO?

SMART Goals for Social Activism

You can use SMART goal-setting methods to plan a peaceful social demonstration. Mobilizing people to speak out about an issue that they want political leaders to address is one of the most basic tasks social entrepreneurs undertake. Social entrepreneurs who go on to found successful nonprofit organizations often cut their teeth in this kind of base-level activism. But just because the concepts underlying demonstrating are somewhat straightforward—contact media, gather people, march, demonstrate,

11 "Performance Management Goal Setting." *University of Virginia*. n.d. <https://hr.virginia.edu/career-development/performance-management-process/performance-management-resources/goals>

speak out, tell your story, clearly state your petition for change (also known as a “redress of grievances”), peacefully disperse, and strategize next steps—that does not mean that the process is always done according to SMART tactics. Protest organizers often vary immensely in their organizing skills.

Here is the task: Think of an issue that you want addressed on your campus or in your community. Define it and draft a plan for a peaceful demonstration wherein the demonstration is clearly goal-oriented.

- State the specific issue you want addressed, who you want to address it, and what you want them to do.
- State several ways you might measure the success of your protest. Are you seeking media awareness, legislative change, or specific action regarding an individual victim or perpetrator of a crime? Be sure to clearly state not only reasonable expectations regarding reactions to your demonstration but also measurable outcomes you can communicate to others as you work to gather interest in your cause.
- Note whether your demands target the right leaders and whether what you ask of them is something you can attain.
- Demonstrate clearly how the specific action you plan to take is relevant to the cause at hand. Will you demonstrate in one place? Will you carry out some form of active protest such as a “die-in” at a certain location?^[12] Will you practice nonviolent civil disobedience? Clearly explain why your action is relevant to your requests or demands. If you are planning an act of peaceful civil disobedience, are you and everyone you are encouraging to participate aware of the possible consequences, such as arrest? If someone is risking arrest to help demonstrate for an important cause, they are right to demand of protest organizers that the action be relevant and easy for target audiences to understand.
- Is your strategy timely? Are you planning a demonstration with measurable outcomes that will occur according to a timeframe you can track? It is generally ill-advised to petition for general fixes to complex solutions without paying attention to existing legislative and/or communicative cycles.

Note that this is presented as an exercise only. Much more planning goes into successful demonstrations, but this should give you a sense of how SMART goal setting can be useful for social entrepreneurship. It is not only for taking business risks. You can use SMART tactics to peacefully push for important changes. Recognize, obviously, that the risks are quite different for this type of social entrepreneurship than for other types of endeavors.

Thinking like a business entrepreneur again, recognize that SMART goal setting is a tactic for getting things done in the short term. You can line up several attainable goals over a period of several weeks or months, and build your way to a complex, realistic business plan. The Small Business Administration (SBA) business plan template,^[13] for example, includes eleven core sections and, as a blank outline, is thirty-five pages long. If you set a SMART goal to complete each section in about a week, in three months, you would have a comprehensive business plan.

12 Tamar Harris. “Road Safety Advocates to Hold ‘Die-in’ at City Hall.” *The Star*. March 25, 2018. <https://www.thestar.com/news/gta/2018/03/25/road-safety-activists-to-hold-die-in-at-city-hall.html>

13 US Small Business Administration. “US Small Business Administration 8(a) Business Plan.” March 31, 2014. <https://www.sba.gov/sites/default/files/SBA%201010C.pdf>

7.2 Sharing Your Entrepreneurial Story

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Learning Objectives

By the end of this section, you will be able to:

- Identify the importance of telling your own story
- Describe the advantages and disadvantages of using stories to build a startup

The popular reality TV show about entrepreneurs making pitches, *Shark Tank*, is sometimes erroneously described as a show about pitching. This is false. *Shark Tank* is a show about people, usually inventors, with interesting back stories who are now looking for help getting their product to its next step. The show offers them the opportunity to pitch their idea to a panel of investors who, if they like the idea, make a financial offer in return to help get the product to market. Every pitch is preceded with what reality TV producers deem to be the more interesting narrative—the entrepreneur’s story. Viewers learn what inspires entrepreneurs, how hard they have worked on their prototypes and pitches, and what they have riding on those few minutes in the room with the “sharks.” Only after the entrepreneur’s story is set up do we get to the punch line, so to speak—the five-minute memorized pitch—which, if the entrepreneurs’ ideas seem viable, is followed by further talk about valuation and mentoring.

Shark Tank is not a course in pitching products, but it does highlight an important aspect about the practice: Stories matter. They matter to both investors and customers. Many angel investors base their decision more so on the team giving the pitch than on the product itself.

Telling Your Story

As an entrepreneur, you need to be able to effortlessly discuss your product and its problem-solution narrative, its value proposition, its market niche, and the competition, but in your pitches, you also need to be able to tell *your* story. Prepare to tell your entrepreneurial story by applying the most universal story format: the fairy tale. Here is a template you can use:

Once upon a time, we had a problem. Then, we thought of the most ingenious solution. We worked really hard and built several versions of the solution until we found The One. This, the innovation you see before you, is The One. We arrived at it through great personal cost, but here it is, and you can own part of it, not just the innovation on the table beside us, but the idea. You can own a sizeable portion of this business and its potential future growth. All you have to do is trust us, and you can be part of the magic. We will deliver this innovation to millions and make their lives better. We’ll grow rich together and make the world a richer place at the same time. Join us. Invest, and live happily ever after.

Of course, the fairy tale format is not a formula for giving a practical, professional pitch, but it can help you put the pieces of your own entrepreneurial journey on paper so you can weave key details into your pitch as it develops.

WORK IT OUT

Writing Your Entrepreneurial Story

Take the preceding fairy tale template and use it to write the story of the entrepreneur behind your favorite product or brand. For example: “Once upon a time, Steve Jobs had a problem. He wanted to fit a computer into a box the size of an oversized cell phone...”

Conduct some biographical research on an entrepreneur and, after fleshing out the fairy tale, answer these questions:

- Why does the entrepreneur’s story matter to investors?
- Is there a way to craft an entrepreneur’s story so that it appeals simultaneously to both investors and consumers?
- How would you weave fairy tale elements about this entrepreneur into a mock pitch for his or her most ingenious invention?

Once a company grows, its story grows. But the original stories of the founders still play a part. This bigger story is called a corporate narrative. A **corporate narrative** is not a fairy tale but relays how a successful company grew from something small, perhaps starting in a garage in California, into a powerful firm or corporation serving millions of people. Companies craft narratives, often with several embellishments, for marketing purposes, but they also serve to remind leaders and employees about the vision and dreams the company’s founders once had.

An example of a startup that still inspires many today is the Hewlett-Packard Corporation (HP). Its origins lie in the efforts of Bill Hewlett and David Packard, two Stanford University classmates in the 1930s. Much like members of a garage band, they started their company in a real garage, and the firm has outgrown its humble beginnings many times over. You can see the actual (restored) garage in [Figure 7.5](#).



Figure 7.5 Hewlett-Packard has restored the original garage in Palo Alto, California, in which its two cofounders, Bill Hewlett and David Packard, former Stanford University classmates, began work in 1938 on the electrical switches and sound oscillators that became their new company's first products. (credit: "HP Garage in Silicon Valley" by "MGA73bot2"/Wikimedia Commons, CC BY 2.0)

The Advantages and Disadvantages of Using Stories

The primary advantage of using stories in pitch development is that they are relatable. Stories are how we make sense of our lives, so it's natural for stories to help others make sense of our new ventures. Stories are useful for transferring concepts with imagery told from a particular point of view.

When making a pitch, it is best not only to convey the value proposition of your product but to convey the value in the way that a loyal, enthusiastic consumer of the product (a brand advocate) would see it. Your goals become their goals. For example, Nike's Air Jordan brand has one of the most powerful advocate communities in the world. They are motivated by stories of being, in some small way, like one of the greatest athletes of all time. Inspired, they not only buy Nike shoes and clothes, they camp out and wait to be a part of the latest release—like people waiting for the next installment of their favorite film on opening night. Using narrative structures to get your pitch points across can inspire potential investors to see and share your vision and goals. The downside to narrative-based customer development and marketing is that it can lead to a culture of manufactured need. A new form of consumerism, built on what marketers call the "fear of missing out," is another way of characterizing the euphoria people feel when they are enraptured by a brand. **Fear of missing out (FOMO)** refers to the sense that we need to keep up with our peers and the personas they represent in social settings, particularly on social media. They can say they were there and that they had the best stuff first. Critics would say that building such a strong identity to a brand, or even material goods, clouds people's sense of what is really important in life.

Even as you develop skills in pitching products by crafting inspiring narratives, be aware of the ethical implications of your work. You need to learn how to successfully make pitches to grow a brand and a company or nonprofit, but this is not a license to ignore the impacts of your work. Instead, consider this a call to action to balance your entrepreneurial, consumerist pitches and efforts with pro-social ones as well. Across a career, this kind of balance may be achievable, and, for both mass consumer products and purposeful social entrepreneurship efforts, good storytelling will help you achieve your objectives.

There is another type of narrative that can be pernicious—that of the wildly successful entrepreneur who has it all. Yes, this chapter starts by comparing entrepreneurs to superheroes. They do accomplish things other people only dream about, but many of the most famous ones have anomalous careers marked also by favorable conditions, luck, and hard work. The narrative that matters other than that of your entrepreneurial effort is your own personal one. The same way a successful startup is expected to iterate and overcome failures, so too are you encouraged and expected to persevere after setbacks when it is reasonable to do so.

As with the rapidly evolving tastes and habits of consumers in the face of “omnichannel” marketing practices in the US economy, it is impossible to be out in front of all of the latest information and communication technologies (ICTs). Even manufacturing technology evolves rapidly. If you make it an essential part of your corporate narrative that you are always “on top” of all technologies, you may be setting your business or service up for failure. ICTs and manufacturing are massive sectors in the global economy. You are not expected to know everything about them. If you can conquer your FOMO regarding the latest technological developments, your story may not be perfect, but you will be able to work from a personal and corporate position of balance.

Also, be realistic about your own entrepreneurial story. Entrepreneurs who focus too much on their own narrative might miss important market challenges or deep-seated problems with their design or key features. Issues may arise and be ignored, to the peril of the endeavor, if entrepreneurs believe their own stories are a matter of destiny. Ignoring hurdles, failures, and shortcomings within yourself, your value proposition, or your organization can seriously hinder your ability to grow your venture. Your role as a communicator is not to spin a fairy tale yarn and try to live in it. Rather, your role in telling your entrepreneurial story is to demonstrate your capability to overcome challenges and show your capacity for growth as it relates to perseverance, thoughtful inquiry, and providing value and solutions to others.

7.3 Developing Pitches for Various Audiences and Goals

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Learning Objectives

By the end of this section, you will be able to:

- Understand the various audiences an entrepreneur may pitch to and how the pitch goals vary for each
- Define and develop the key elements of a pitch
- Describe a pitch deck and pitfalls to avoid
- Create and create an elevator pitch

Let’s look more closely at how to develop pitches. Remember that we defined a pitch as a formal but brief presentation that is delivered (usually) to potential investors in a startup. As such, a pitch is designed to be clear, concise, and compelling around key areas, typically the key problem or unmet need, the market opportunity, the innovative solution, the management plan, the financial needs, and any risks.

You will often need to craft different types of pitches for different audiences. Key audiences include potential investors, social connectors, potential partners, key employee recruits, and the broader community, particularly if one needs to request permits or regulatory concessions. One misconception about pitching is

that it is always done to investors who are ready to fork over a few hundred thousand dollars to the team that presents the best idea of the day. While this is, more or less, the premise of *Shark Tank*, it is not how pitching works for most entrepreneurs.^[14] Entrepreneurs may pitch to friends and family as they develop an idea, and, at another time, they may pitch to well-connected entrepreneurs and investors who have little interest in the market sector in question but who can make the right introductions or helpful connections. Entrepreneurs might make pitches in what is known as a pitch competition, hoping for a shot at funding and mentoring.

Pitches come in many forms, but underlying them is that to pitch is to *ask for something*. [Table 7.3](#) provides an overview of different audiences you might pitch to, outlining how the approach and presentation may vary for each.

Summary of Pitch Scenarios

Audience	Pitch Length	Pitch Approach	Key Content	Notes
Friends and family	Fifteen minutes	Usually verbal with a simple companion one-page handout explaining the concept, value proposition, and funds needed to get the enterprise off the ground	Should cover basic elements of the business model and concept, unmet need, and solution (including if it seems patentable), market and sales potential, and high-level risks	This common pitch can be emotional as founders are appealing to people they know well and are counting on their personal reputation and credibility vs. detailed data to sell the idea
Elevator pitch competitions	Two to five minutes	Usually a verbal pitch or single slide summarizing need, solution, market, opportunity	Should cover high-level innovation, value proposition, and a “call to action” to close the audience	Very common at accelerator or incubator events, university entrepreneurship events, etc. Prizes range from free services to \$1,000–2,000
Judges for pitch competition	Five to fifteen minutes depending on venue/ rules	Varies from basic verbal to deck of one to eight slides, ending with a “call to action”; might require capital needs	Presentation that may include slides and/or video as specified in competition rules	These are very common and help the entrepreneur refine the pitch

Table 7.3

14 Bill Rader. “The Truth about Pitching (and Why Many Entrepreneurs Fail Here).” *Inc.* November 22, 2017. <https://www.inc.com/bill-rader/what-theranoss-downfall-can-teach-entrepreneurs-about-pitching.html>

Summary of Pitch Scenarios

Audience	Pitch Length	Pitch Approach	Key Content	Notes
Early Investors	Ten to twenty minutes, depending on venue/ rules	Standup presentation with slides and video or demo of product/ service	Presentation that may include slides and/or video; more formal than pitch competitions with a specific “ask” for capital needs and use	Very common with angel investors; often the deck is required to be sent before the event
Employees	Ten to twenty minutes	Standup presentation with slides and video or demo of product/ service	Major outcome is to inform and inspire; this can be a recurring event and should be informal	Very common in startups; usually monthly until company is profitable
Trade groups/ associations	Ten to twenty minutes	Standup presentation with slides and video or demo of product/ service; may be tailored to the specific group	Major outcome is to inform and connect to other key groups (investors, customers, etc.)	Very common at trade conferences; some have their own pitch competitions
Grant-making agencies (such as NIH, NSF)	Ten to twenty minutes if in person but usually embedded in grant application	Usually written but can lead to face-to-face meeting, depending on agency rules	Outcome is to get “scored” to gain grant funding; if not awarded, company can reapply in the next grant cycle	Grants are often technical and usually awarded for research and cannot be used for any commercial activities

Table 7.3

Pitch Audiences

No matter to whom you are pitching, you usually need to include references to your problem-solution statement, value proposition, and key features, and how you prioritize that information will change for different audiences. As shown in [Table 7.3](#), once those core sections are covered, your different presentations should be tailored for different ultimate “asks.” The **ask** in a pitch is the specific amount of money, type of assistance you request, or outcome you are seeking.

Investors

You have been introduced to different types of investors and will learn about them in more depth in [Entrepreneurial Finance and Accounting](#). For now, you just need to know the different types so you can start to think about how entrepreneurs structure their pitches to them. Individual investors want to know about team, product, value proposition, and potential return on investment. Angel investors are individuals who use their own money to invest in companies they're interested in. Venture capitalists are investors who pool money from others and use that money to invest in companies.

Pitching to many potential investors without success can be time consuming and disheartening, but in most cases, the investor's time is worth more than that of the people giving the pitch. If an investor offers feedback, it must be considered. You will probably not get all of the answers you need regarding how to make your venture an immediate success after giving a few pitches to individual investors and pitch competition judges, but if they take the time to offer a constructive critique, consider the pitch development and performance feedback a valuable experience.

LINK TO LEARNING

David S. Rose is the author of *Angel Investing*. Watch [David Rose's TED Talk \(https://openstax.org/l/52TEDRose\)](https://openstax.org/l/52TEDRose) where he offers advice about how to pitch venture capitalists.

Friends and Family

Imagine asking friends and family for money to keep your startup going after you have maxed out your credit cards and secured a small business loan only to build a prototype and realize you do not have enough funds to get it to market. A common entrepreneurial journey starts with this sort of self-funded effort. Between 50 percent and 70 percent of startup companies in United States self-fund (savings, credit cards, or friends and family) their initial capital needs.^{[15],[16]} In one sense, you may be perceived as being more trustworthy with so much riding on the endeavor. Still, you would frame your pitch differently when going to friends and family than you would if preparing for an investor. You would probably make the tone less formal. You would focus on the value proposition and the immediate outcomes of the loan. You would point out tangible deliverables or milestones that this money would help you attain, and you would need to draw a roadmap from this contribution to likely, not just hoped for, revenues if you were to give yourself the best shot at raising money. Asking friends and family for, say, \$10,000 might be more stressful to an individual than to ask an investor for ten times that amount. Your friends and family may want to invest in you, but they will also want to make their decision with a tangible narrative in mind. You want to build this narrative so that they can say: "I gave my family member X, so that they can finish building Y, to earn revenues of Z and continue forward with their innovation."

15 Laura Entis. "Where Startup Funding Really Comes From (Infographic)." *Entrepreneur*. November 20, 2013. <https://www.entrepreneur.com/article/230011>

16 Meredith Wood. "Raising Capital for Startups: 8 Statistics That Will Surprise You." *Fundera*. October 23, 2019. <https://www.fundera.com/resources/startup-funding-statistics>

Potential Employees

Entrepreneurs also pitch to potential employees by focusing on why they are needed to help the team create something innovative and valuable. Once a product is under development, you must pitch to vendors. Prepare to explain the value proposition and key features in detail and explain how the vendor shares in revenues, such as options about accepting equity in part or in lieu of cash payments for services.

Entrepreneurs might also pitch to each other in hopes of building teams. Since most entrepreneurs are familiar with the structure of the pitch, you might be able to streamline proposals and simply state the value proposition and the ask. You will want to mention your team. The level of detail you share about who is working with you and what their contributions will be depends on the level of interest of the potential collaborator or investor. Future employees will likely want to know who they will be working with. Family and friends may not need to know the employment history of team members, but they, like other investors, will expect to know that there is a team capable of continuing to develop the product.

Other Audiences

Other types of audiences, which you can read more about in the [Building Networks and Foundations](#) chapter, include quasi-governmental bodies, individual investors, incubators, trade groups, and competition judges. (Pitch competitions are discussed at length in [Reality Check: Contests and Competitions](#).) Understand that governments usually care most about creating jobs or retaining jobs in their communities. Advanced competitions and larger investment firms will want to see concrete numbers demonstrating product viability, market relevance, and previous growth. In other words, they will expect to see more details, and they will usually communicate ahead of time their specific interests. That being said, you must network and investigate which elements of your pitch to prioritize based on individual investor or investment firm preferences.

Pitch Goals

Planning a pitch means researching region, potential investors, and current competitors working in the same or similar marketplaces. A good pitch explains not only what makes the product or service good but what makes a market good. Research markets in addition to the individual investors you would like to target. Angel investors are hard to find, but markets can be thoroughly dissected. Marc Andreessen, cofounder of Andreessen Horowitz, one of the most successful Silicon Valley venture capital firms in existence, once wrote, “In a great market—a market with lots of real potential customers—the market *pulls* product out of the startup.”^[17] This is presented as an answer to a question Andreessen posed to himself: “What correlates the most to success—*team*, *product*, or *market*?” He set up this question as a rhetorical tool to teach entrepreneurs that without a market, you do not have a product no matter how hard you work or how genius your team is. Investors specialize: Find investors in the right geographic location and find investors who know the market sector. Your goal should be to find mentors who can explain markets to you in significant, accurate ways. If you find a fertile marketplace, you can practice customer development, and learn and iterate your way to success.

Key Elements of the Pitch

A pitch is usually presented through what is called a **pitch deck**, alternately called a *slide deck*. This is a slide

17 Marc Andreessen. “Part 4: The Only Thing That Matters.” *The PMARCA Guide to Startups*. June 25, 2007. https://pmarchive.com/guide_to_startups_part4.html

presentation that you create using a program such as PowerPoint, Prezi, Keynote, or Google Slides that gives a quick overview of your product and what you're asking for. As such, a pitch is designed to be clear, concise, and compelling, and should include the key areas shown in [Figure 7.6](#).

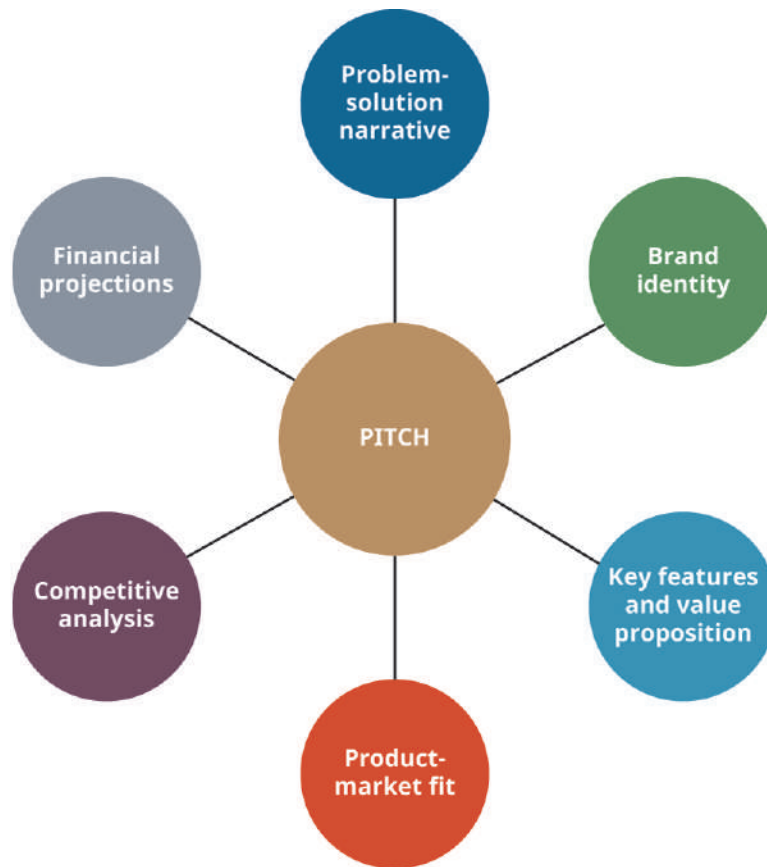


Figure 7.6 Key elements of pitch include identifying the need, the market opportunity, an innovative solution, how the venture will be managed, what funding is needed, and how risks will be mitigated. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Here are six key elements of an entrepreneurial pitch from *Media Innovation and Entrepreneurship*.^[18]

- Element 1: Brand identity image and tagline. Your presentation slide deck should begin with a memorable brand image. It can be a logo representing your product in a stylized way, or it could be a screen grab of your product wireframe (a computer rendering if it is a product, and a schematic or flow chart if it is a software/service business model. The [Entrepreneurial Marketing and Sales](#) chapter covers these concepts in detail.
- Element 2: Problem-solution narrative. Some entrepreneurial ideas solve common problems. Some solve problems that users didn't know they had. Communicate the problem-solution narrative succinctly. Incorporate visuals and a "hook" (skit, emotional testimonial, deep question, etc.) to connect directly with the audience. An effective technique when addressing a generally common problem is to ask the question while raising your hand to prompt the audience: "How many of you have experienced this issue/problem/challenge recently?"

18 Mark Poepel. "Pitching Ideas." *Media Innovation and Entrepreneurship*. (Montreal: Rebus Community, Fall 2018).

<https://press.rebus.community/media-innovation-and-entrepreneurship/chapter/pitching-ideas/>. This material is based on original work by Mark Poepel, and produced with support from the Rebus Community. The original is freely available under the terms of the CC BY 4.0 license at <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

- Element 3: Key features and your value proposition. Your pitch can introduce potential investors, collaborators, employees, and others to your key features, your value proposition, and your user interface at the same time. Consider using a mockup of your product or images of a prototype to show your design capabilities while at the same time pointing out key features building to a value proposition. Or if you are a service or nonprofit venture, explain what you plan to provide to individuals or the community.
- Element 4: Product-market fit description. Define the market niche clearly and explain how your innovation serves the market purpose precisely. Not every problem is one people would pay to fix. Explain why there's a market to overcome this problem, how sizeable it is, and why your value proposition is the best. The chapter on [Identifying Entrepreneurial Opportunity](#) can help you hone in on this section and put your idea into words.
- Element 5: Competitive analysis. Demonstrate that your product is unique by defining its competition and illustrating how it will stand out in the marketplace. Investors will pay close attention to any missed or omitted competitors. They will want to see that you can establish barriers to entry, lest some immediate copycat eat up market share. The [Entrepreneurial Marketing and Sales](#) chapter covers these concepts as well.
- Element 6: Financial projections. The business model canvas (BMC) can help you understand and be able to visualize how your value proposition sits at the center of two dynamics: input and output cycles. This is covered in [Business Model and Plan](#), but just know that you must pay for inputs and overhead, and that revenues from outputs, sooner rather than later, ought to catch up to initial expenses. Show what the overall market is worth: How big is this pie? Then, show how big your slice and your investor slice is going to be. The [Entrepreneurial Finance and Accounting](#) chapter gets into these issues in more depth. In many cases, you will want to end with a description of your team, demonstrating quickly why you are up to the task of growing this innovation. As mapped out here, this could be the basic framework for your pitch deck for a short competition. Some elements can be communicated in a single slide. Some will take more than one. Flesh out your essential pitch decks with further specifics or with data requested by competition organizers for longer contests. It is suggested that you keep your core deck to no more than ten slides and that you practice a two-minute version that covers all six of these concepts in case you meet an angel investor on the street.

If you have followed this discussion, you have established a vision for your innovation and the company you want to build around it. You have established a mission and identified a clear purpose for it. You should have a keen sense of your entrepreneurial story, but if you cannot express these things in a way that makes other people see the value, your innovation may not survive. You don't build pitch decks solely for the purpose of asking for money or support. That may be the primary objective, but when you work on your pitch, you build the narrative case again and again for why your idea has value and why other people should buy into your vision.

The Pitch Deck

As you can see, the primary means entrepreneurs have of sharing their vision is the pitch deck. Usually ten to twenty slides can explain your company, its goals, and key information to persuade an audience to take action (usually investors to consider investing in the enterprise). Pitch presentations should be visual and engaging. They should be easy to edit and rearrange, and should engage viewers with art, panache, and reasonable appeals. In general, they communicate the inspiration behind the innovation, its future capabilities, and the strengths of the team. Incorporate as many visuals as you need and make sure the visuals match the script.

As an entrepreneur, you will be judged on your ability to develop and deliver a pitch. It can be taken as

shorthand for your ability to research a marketplace, guide a team, and manage a product. Sharing your vision using slideshow software is not easy. Viewers are not impressed by status quo pitch presentations, but critical audiences will also quickly notice when a pitch is all flash and lacks a good value proposition. A strong pitch, content-wise, can be noticed, even if the slide design is less than stellar. In other words, developing a great-looking pitch deck is important, but there has to be substantial content.

LINK TO LEARNING

Explore a [variety of foundational pitch decks \(https://openstax.org/l/52PitchDeck\)](https://openstax.org/l/52PitchDeck) and learn what worked and didn't with each.

Let's use the slide deck from Airbnb as an example. It was presented after the company grew from its initial seed funding stage into a viable operation with high hopes for future revenue growth. That is, they were already established and making money when this deck was in use. It was presented after the initial investment stage, when the company had done a good deal of customer development.

The track record is always in question when small firms go asking for big money, so note how Airbnb describes its previous success and potential for future growth. When funded, AirBed&Breakfast would change its name and grow it into a global brand. This relatively straightforward deck from 2008–2009 is a popular example because of its simplicity and its powerful value proposition, although some experts note that the design could be better.^[19] Nevertheless, this was a successful pitch deck.

Visit <https://press.rebus.community/media-innovation-and-entrepreneurship/chapter/pitching-ideas/> to see a SlideShare page containing the following ten slides and two more add-ons from SlideShare. The description of this pitch deck comes from *Media Innovation and Entrepreneurship*.^[20]

- Slide 1: Airbnb started out as "AirBed&Breakfast." Brand identity is established with a sans-serif typeface, use of color, and a clear tagline: "Book rooms with locals, rather than hotels."
- Slide 2: The problem statement is straightforward: Travelers need an affordable alternative to hotels.
- Slide 3: The solution statement focuses on the nature of the product, that is, that it's a web platform, and on key features and how they create value, both financial and cultural capital. Note that key features and the value proposition are already addressed through three simple slides.
- Slide 4: To establish product-market fit, you first have to have a market. The Airbnb pitch deck notes that at the time there were 630,000 users on couchsurfing.com and that there were 17,000 temporary housing listings on Craigslist in San Francisco and New York combined in one week. Thus, there existed a large potential traveler pool and a large pool of people with rooms for lease, but these groups were in need of a unified platform.
- Slide 5: The fifth slide details the size of the market and Airbnb's share, showing potential for growth.
- Slide 6: Completing the case for product-market fit, this slide shows the attractive user interface and provides a mini-narrative for how the product works.
- Slide 7: This slide shows four years' of revenue totals as simple math: 10 million + trips × \$20 average fee = about \$200 million in revenue. This is evidence of product-market fit and whets the investor's appetite for potential future earnings.

19 "Airbnb Pitch Deck." *Slidebean*. 2009. <https://slidebean.com/blog/startups/airbnb-pitch-deck>

20 This material is based on original work by Mark Poepel, and produced with support from the Rebus Community. The original is freely available under the terms of the CC BY 4.0 license at <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

- Slide 8: This slide shows how Airbnb has already beaten its competition to own the market for certain events and create partnerships.
- Slide 9: Here, investors get the full picture of the competition.
- Slide 10: The financial expectations are pretty well established by this point and were explained verbally. What this shows are the barriers to competition expected to help preserve Airbnb's position, future earnings, and growth expectations.

Consider what was involved in creating this Airbnb slide deck. The deck is not particularly complicated. AirBed&Breakfast, as it was called at the time, was a market leader in a niche that other companies had previously tried to exploit. The company's rapid growth was not a guarantee, but this offer was too good for investors to pass up, although at the seed funding stage, some investors did not see the potential in a service that helps people sleep in others' private residences.^[21] By the point this deck was in use, the company had gotten past initial concerns about safety and viability, and was ready to grow quite quickly. A 2018 check shows Airbnb has secured funding through six rounds from a variety of major investors.^[22]

As we have seen, pitch decks and pitches are developed and delivered for various reasons, to various audiences, with varying content. For example, you may prepare pitches to pursue different long-term visions for your product. Or, if you do not secure seed funding, you might scale back your idea, adjust your vision, and rework your pitch. What remains the same is the need to convey how you will bring value to users or customers, and demonstrate the core pitch elements, adjusted for each altered outlook.

Elevator Pitches

After looking at an exemplary pitch deck adapted by a niche market leader between seed funding and the venture capital quest, it may seem difficult to inspire investors via a one- or two-minute elevator speech for a project under development, but preparing for this type of pitch is essential. An **elevator pitch** is an abbreviated pitch, a memorized talk that can get you in the door to put your full pitch deck on display. The elevator pitch should touch on the key elements of problem-solution, value proposition, product-market fit, and team, and not much else.

Giving an elevator pitch is an art. The elevator pitch can be memorized and should be. It might be delivered informally at networking events or at dinner parties or other social engagements. You never know when you might need to give an elevator speech. You might find yourself talking to someone who'd be interested in your venture, and it might be at a golf outing, on the ski slopes, on the street, in a store, or, yes, in a giant investment firm's lobby as a courtesy, as in *The Big Short*. And of course, in elevators. That's why it should be memorized and up to date.

The classic example of a good elevator pitch is the one job candidates give that lands them an entry level job in a company for they have always dreamed of working. Adapted from an article in *Forbes*,^[23] there are six elements of a good job-seeking elevator pitch. First, the pitch must be targeted. It cannot sound as though just any job will do. You need to pitch yourself for the specific role the employer is trying to fill. It helps, second, to write your pitch down in order to edit it and perfect it. Third, it should be correctly formatted and, fourth, focused on the *company* where you hope to work rather than on *yourself*. Explain how you understand what they are hiring for and let that be the setup to a story that ends with you being the best person to fit their

21 Alice Truong. "The Investors Who Passed on Airbnb's Seed Funding Had Their Reasons." *Quartz*. July 13, 2015. <https://qz.com/452384/the-investors-who-passed-on-airbnbs-seed-funding-had-their-reasons/>

22 "Airbnb Investors." *Crunchbase*. n.d. https://www.crunchbase.com/organization/airbnb/investors/investors_list#section-investors

23 Nancy Collamer. "The Perfect Elevator Pitch to Land a Job." *Forbes*. February 4, 2013. <https://www.forbes.com/sites/nextavenue/2013/02/04/the-perfect-elevator-pitch-to-land-a-job/#7843035b1b1d>

needs. Fifth, clear away the buzzwords and corporate-speak, and, finally, practice performing your pitch aloud. Elevator speeches, after all, are given in person.

LINK TO LEARNING

NPR's podcast *How I Built This* is a compelling collection of first-person accounts by entrepreneurs on all kinds of issues relating to their startups. This [episode of "How I Built This" is about Sara Blakely and her elevator pitch for Spanx \(https://openstax.org/l/52NPRBlakely\)](https://openstax.org/l/52NPRBlakely) that turned into a bathroom pitch, and how she seized the moment for success.

However, a personal pitch is a relatively simple and straightforward task. If you're asked to write an elevator pitch for your proposed venture, start with about three sentences, or a 280-character Tweet. Write it first as a set of talking points so that you don't get hung up on trying to present the exact words in the exact order. Make your elevator speech broad enough that any member of your team could deliver it and any potential investor could comprehend it in passing. Delivering an elevator speech is a linear process, meaning a person can't be expected to read back or probe for more information the way they might with a written presentation or in a formal pitch presentation with time for follow-up questions. Be sure to bring business cards and keep your smartphone charged and ready for the exchange of contact information, a sign that you have succeeded in this first step.

WORK IT OUT

Developing and Practicing an Elevator Pitch

Part of the idea of an elevator pitch is that you never know when opportunity will strike: when might you have thirty seconds on an elevator with someone interested in supporting your business idea? That's why thinking through the pitch—including practicing it and getting feedback—can be so valuable.

- Gather a group of 2–3 classmates or entrepreneurially minded friends.
- Have each person spend a few minutes planning a 30-second elevator pitch.
- Take turns pitching your ideas. Take notes on others' presentations.
- Take turns providing feedback on the pitches. Feedback should focus less on the business idea and more on the *presentation* of the idea.

7.4 Protecting Your Idea and Polishing the Pitch through Feedback

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Learning Objectives

By the end of this section, you will be able to:

- Understand why you need to protect your idea
- Describe both legal and unconventional tools to keep your ideas safe
- Understand the importance of feedback and how to manage and use it

When you start to pitch your idea, it means you are sharing it with a variety of people for different purposes. When encouraged to develop entrepreneurial ideas, students often ask, “How can I be sure no one is going to steal my idea?” The response often is that ideas come easily, while knowledgeable, driven leaders are hard to find. In other words, for those of you just starting out as entrepreneurs, it is important to recognize that coming up with ideas is much easier and much less important than learning how to turn those ideas into products that fit a market and that have a customer base already, or one you develop through painstaking customer development strategies. Many entrepreneurs find it is more important to sell an investor on their leadership potential and the strength of their team than on the strength of their idea or prototype. Even so, it is common for entrepreneurs to want to protect their intellectual property because more well-established companies might leverage deeper wells of resources and broader, more powerful networks to bring an innovative product or service to market in the time it takes an entrepreneur to move from securing seed funding to landing their first support for their first venture capital round (after seed funding).^[24]

Protecting your business idea with a patent, should you choose to apply for one, is important. Patents are granted for the purpose of *encouraging* entrepreneurship. If innovators have some reassurance that others will be kept out of the marketplace for a certain amount of time, they may be more likely to take the risk to pursue an innovation in the first place. Intellectual property protection (patents, trademarks, copyrights) is covered in much more depth in the [Creativity, Innovation, and Invention](#) and [Fundamentals of Resource Planning](#) chapters.

Products in most fields need to be developed and brought to market more quickly than the time it takes to go through the standard patent process. For manufactured goods, it is important to seek a patent when a product is finalized to protect the design. For intellectual property, it may be best to build first and seek patents later, particularly in a highly competitive field where it would be difficult to show that you truly have a unique breakthrough.

Entrepreneur.com has some helpful suggestions^[25] that are paraphrased and reframed here: First, recognize that almost nothing comes to market having been created by a sole inventor or innovator. Some ideas truly are unique, but even they are nearly impossible to keep “under wraps.” Ideas have to be shared with many people for products or services to be developed. If nothing else, you will likely have to present your idea to investors at some point. Protecting initial ideas is not as important as protecting versions of products and services developed through iterative learning and testing processes because “know how” and trade secrets are considered intellectual property and must be protected since they are not always patentable. Aim to protect your successful value propositions, not your every technological whim. Most new business ideas are variations of solutions that others have anticipated or even written about, but others have not had the drive, the networking skills, or the fundraising ability of a true entrepreneur. Balance your time wisely between trying to protect your idea and working to develop it.

24 Some of this material is based on original work by Mark Poepsel and produced with support from the Rebus Community. The original is freely available under the terms of the CC BY 4.0 license at <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

25 Stephen Key. “How to Protect Your Business Idea without a Patent.” *Entrepreneur*. May 8, 2013. <https://www.entrepreneur.com/article/226595>

One way you can gain some peace of mind, again to paraphrase Entrepreneur.com,^[26] is by thoroughly investigating everyone with whom you plan to partner. If you have some assurance that they have not “burned” collaborators in the past, you can proceed with a sense of security. Conduct research without invading anyone’s privacy but use all of the public tools available to you. Search online to learn about potential partners and their previous endeavors. Request contact information and perhaps a list of references or former collaborators from potential partners. The level of formality is going to depend on the nature of the industry you are working to enter and the nature of the relationship you have with your collaborators, but if they resist being researched, that could be a sign that they will probably not prioritize you or your product’s protection.

Legal Agreements

Outside of patents, there are additional legal means of protecting your intellectual property.^[27] You may wish to require partners to sign a **nondisclosure agreement (NDA)**. Typically, NDAs carry with them a penalty should the partner disclose what they know of the proprietary information that lies at the heart of your value proposition. These can be time limited, meaning after a certain amount of time, someone will be free to discuss the business and its proprietary practices, or, for stronger legal controls, they may be open-ended. An open-ended NDA can require a person to stay silent about key information for life or face possible civil lawsuits worth potentially millions of dollars.

A **noncompete agreement** in a contract prevents an employee from working for the competition for a specified period of time after working for you. The intention is to prevent them from taking your secrets or their skills to a competitor. Some of these practices have been called into question particularly in industries where low-level workers who do not carry around trade secrets find they are asked to sign these types of agreements. However, they can help keep corporate espionage to a minimum, and they can prevent certain key employees from taking the organization’s intellectual property with them to their new employer, or perhaps to create their own startup. Employees should only sign them if they are a condition for employment. These agreements can vary from state to state. California in general does not enforce noncompete agreements; this is due in part to the dynamic nature of startups, particularly in Silicon Valley. It also reflects a philosophy that working professionals should not be inhibited or restrained from pursuing their livelihood.

A **work-for-hire agreement** between an individual employee and a company states that ownership of innovations belongs to the company, even if an individual makes substantial contributions to the product, service, or process. You should expect to be required to list collaborators on patents, even those working under a work-for-hire clause, but the *purpose* of the contractual agreement is to ensure that you or your company maintains exclusive rights to the patent.

Unconventional Methods

One further suggestion is to apply creativity and mask your product or service’s true nature. By de-emphasizing certain key features or by burying them in the user interface (UI), you might be able to turn attention away from your value proposition while still building your product, platform, or prototype. The **user interface (UI)** is what a customer sees when they use your product. A graphic user interface (GUI) is common for all Windows and Apple-based devices. Smartphones use application (app) interfaces built off the base operating system (mainly iOS or Android). UI’s have become very common for many consumer and

26 Stephen Key. “How to Protect Your Business Idea without a Patent.” *Entrepreneur*. May 8, 2013. <https://www.entrepreneur.com/article/226595>

27 Stephen Key. “How to Protect Your Business Idea without a Patent.” *Entrepreneur*. May 8, 2013. <https://www.entrepreneur.com/article/226595>

professional products, as they link to microprocessors, sensors, memory, and other embedded features. From a design standpoint, your team must decide where every button, search box, graphic element, and information display is placed and what it will look like. Good UI is useful and feels intuitive to the user.

For digital products and services, this aspect of your product is incredibly important, which is why manipulating it to mask functions or features is particularly risky. This is not a fool-proof approach by any means, but in hyper competitive, rapidly evolving environments such as the web software and mobile app industries, where invention and iteration occur at a breakneck pace and where, as soon as you go to market, your competitors can see and try to re-create your service or platform, a little subterfuge can give your business an edge at a relatively low cost.

An example of masking the true intentions of a product, perhaps, is the development of the mobile game Ingress by Niantic, Inc. Ingress is a GPS-based augmented reality game played around the world where users join imaginary factions and take over imaginary portals tied to real geographical locations in order to link up those portals and help their faction gain territory and resources. But while Niantic was taking its global mapping expertise and making a SciFi game out of it, it was also developing Pokémon GO. After specific geographic “nodes” were mapped by users the world over, Niantic had a global network of points of interest indicated by users. In many cases, nodes in Ingress—places with public art, cool architecture, or historical markers, for example—later became PokéStops in the Pokémon GO game, where players of the global augmented reality game gather resources to catch and battle their pocket monsters.

One way to protect your intellectual property is to strategically mask dormant features or capabilities until they can be more fully exploited. While few startups have the technological clout of Niantic, almost every business makes decisions on what to push forward, what to hold back, and when to release new products or features.

Using Feedback to Refine Your Pitch

Pitching requires you to demonstrate that you have assembled a capable, professional team that can turn an idea into an innovation. Users, partners, investors, and others will offer thoughts on how your product or your organization should change. Investors consider it a warning sign if an entrepreneur cannot handle feedback.^[28] Applying lessons learned from feedback is the purpose of business learning.

Entrepreneurial ventures often start out as problems with no easy solutions. Your initial idea involves your best guess at what will be an innovative solution, but that will evolve more quickly toward product-market fit if your response to feedback is to accept it with grace. Your pitch must demonstrate that you have a great product, that you have done your research, and that you are able to take feedback and apply it to your products to make them better.^[29] In other words, you must show you are coachable.

Your venture’s development depends on gathering data to find out what customers like and what investors are willing to fund, so you must seek out positive feedback and build on it, but you must also think critically about the positive messages you receive. Are consumers or users enthusiastic in their support or merely polite (this can especially be a concern when pitching to friends and family)? Can you clearly identify why you received positive feedback about certain features and not others? Be sure to gain feedback on many product variables and be sure you can isolate data points for meaningful analysis. The best feedback includes

28 John Rampton. “25 Reasons I Will Not Invest in Your Startup.” *Entrepreneur*. September 15, 2014. <https://www.entrepreneur.com/article/236999>

29 Michelle Ferrier and Elizabeth Mays. *Media Innovation and Entrepreneurship*. (Montreal: Rebus Community, Fall 2018). This material is based on original work by Mark Poepsel, and produced with support from the Rebus Community. The original is freely available under the terms of the CC BY 4.0 license at <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

quantitative responses indicating what consumers like and what they don't, as well as qualitative information explaining why. Quantitative data relate to numerical measurements including actual purchase and behavior as well as opinion research about a product. Qualitative data are complex information that answers the questions "Why?" and "How?" It is often impossible to tell why people do what they do with your product unless you ask them.

In the short term, you can use feedback to decide which features to focus on early in the venture. Many entrepreneurs are faced with the dilemma of having too many good ideas.^[30] If you pursue all of your good ideas at the same time, your organization can quickly run out of resources. Focus first on features that are most popular and relatively affordable to produce and deliver. Those high-return products, services, or features might not be what you use to define your brand in later years, but they can sustain a startup long enough to develop more elaborate products and features that require more time and investment. Over the long term, feedback helps you direct your company.

Feedback may also come from employees, market leaders, and your competition. Feedback from these sources may be more useful for guiding long-term growth projects. In this sense, feedback means more than advice or product ratings. It can mean tactical moves in the marketplace. Your competitors offer you feedback when they take actions in a marketplace in response to your actions. Be sure to attend to competitors' actions with the same open mind and the same air of thoughtful skepticism you apply to other forms of feedback.

Once you have the opportunity to pitch your idea, the next step is the careful measuring of quantitative and qualitative feedback about the pitch presentation, mockup, poster, or, in the case of many manufacturing processes, a 3D-printed model that approximates what the tangible finished product might look and feel like. Data from pitch competitions are sometimes out of your control, so it may be preferable to incorporate the learning you get from pitch feedback into this customer development process.

7.5 Reality Check: Contests and Competitions

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Learning Objectives

By the end of this section, you should be able to:

- Identify resources for locating contests and competitions
- Understand the opportunities and realities of contests and competitions

Now you have an idea of how to communicate the purpose of your innovation through clear mission and vision statements, while setting tangible SMART goals for your startup. You should also have a basic understanding of how to pitch your innovation to different groups using different types of pitches to garner financial support, to attract skilled talent, and/or to garner contributions if you are a social entrepreneur. You have some strategies to protect your idea, and you have reviewed how to incorporate feedback into an iterative process to improve and refine the concept or prototype. Now it is time for a reality check. What can you actually do as a student entrepreneur to enter the marketplace ready to innovate and make your first

30 Mayo Oshin. "5 Things to Do When You Have Too Many Ideas and Never Finish Anything." n.d. <https://mayooshin.com/5-things-to-do-too-many-ideas/>

pitches?

First things first: Use your educational and professional background to conduct research to determine the kind of entrepreneurial environment that suits you. Do you wish to work for a startup and put your creative talents to work helping an existing team to build on their ideas? Are you looking to get in on the ground floor to help develop a startup from scratch, adding your knowhow about pitching to the mix? Or, are you looking to be an entrepreneur and build your own team around your own innovative ideas? You owe it to yourself to explore these options through careful research.

Regional Resources

Just as communities invest in schools to educate students for the improvement of the entire community's standing, some communities are starting to see the long-term value in investing in entrepreneurs. Here are some of the resources to look for:

- Shared workspaces where entrepreneurs come together to work on their independent projects as well as to build teams. HQ Raleigh in North Carolina is one such space that offers multiple membership options, office and kitchen facilities, and other perks. WeWork is another space, located in New York City, as is Spark in Baltimore, Maryland ([Figure 7.7](#)).
- Business incubators or accelerators that do more than offer office space. They offer mentorship rather than a good coffee bar.
- Pitch competitions to begin to garner the feedback you need to refine your value proposition(s) and develop a comprehensive business plan.



Figure 7.7 Workplace or clubhouse? Some companies offer playful perks in shared workspaces in an effort to attract the best employees and increase worker satisfaction. (credit: work by Jason Putsche Photography/Spark Baltimore, CC BY 4.0)

Depending on the size of the community where you choose to live, there may be different types of entrepreneurial niches for you to target, or there may be a more generalized entrepreneurship space. Regardless of the size of the community, it is the people in it and your ability to network that will most strongly influence your potential. One option to pursue is to be part of a product pitch within six months of landing in a new city. Perhaps you are pitching your own focused idea, or perhaps you take your talents to a team with a pitch already in the works. Regardless, as an individual with an interest in being an entrepreneur, if you are not collaborating and competing, you are not growing your business or social venture.

Contests

According to Entrepreneur.com,^[31] it is essential to take the temperature of the contests available in a certain geographic region before diving in. An **entrepreneurial contest** is any entrepreneurial competition other than a pitch competition. They usually are run by nonprofit organizations and universities, but more companies are hosting them to open up to more outside innovation to attract diverse entrepreneurs and access nontraditional sources of new ideas with commercial potential. They usually entail submitting documentation about your business, items such as business models (covered in [Business Model and Plan](#)), prospectuses, and forms tailored to contest specifications.

There are many reasons for joining a contest. Finding a mentor is at the top of the list. Your first contests and pitch competitions provide a learning experience for yourself as well as an opportunity to network and look for mentors and potential collaborators. To prepare for a contest, find out exactly what is expected of you and do as much research as you can so that you are writing using the **iceberg principle**. Following this writing principle, each word or sentence in your contest submission should be backed up with a wealth of supporting information and details. Even if judges never see a long-form prospectus, a detailed summary of the business, the investment that the company is seeking, or the key risks that the company faces—ensuring you have the hard data to back up those points in your executive summary or introduction increases your chances of success in the competition.

Entering a contest is similar to deconstructing your pitch deck, backing up every point with careful research, and writing and presenting the information in the various formats requested. Contests may ask for papers, posters, videos, social media campaigns, and other materials. Whatever kinds of media product the contest requires, you must complete them in a professional manner. If you truly want to win a contest that requires multimedia or social media elements, you might want to hire a media professional to assist you in this, which is essentially a marketing effort.

If and when you win a contest, make connections with organizers and seek mentorship. Great mentorship, in the long run, is more valuable than a cash prize with strings attached. A good mentor and a good market niche are often better predictors of entrepreneurial success than a person's ability to develop compelling contest packets or highly charged pitch presentations. To be an entrepreneur, you need to know how a business sector functions within a social, cultural, and regulatory geographic context. To the extent that entering a contest can help you learn about these things, it is a valuable effort, but in most cases, the prize funding of \$5,000, \$10,000, or even \$20,000 won't guarantee your startup much of a head start.

Contests on college campuses may be more worthwhile than others because of the number of mentors brought in to judge them. Mentors that understand regional markets and opportunities for networking can be quite valuable, and contests may be one of the few times that large numbers of professionals get involved in a college course or extracurricular exercise. Also, competitions may be put on by business groups or social entrepreneurship groups on campus that provide great networking opportunities. Some contests compose the preliminary phase before the pitch competition that follows. In that case, you would prepare your pitch deck as you prep your contest application to ensure that your pitch matches your claims. It may seem fairly straightforward, but when discrepancies exist between what you submit and what you ultimately present, judges will notice. Regardless, a contest on a college campus or in your niche market gives you a chance to research your market, scrutinize your own ideas, and build a team.

Building a team for a contest with the ultimate goal of creating a successful endeavor is one of the most exciting but trying aspects of entrepreneurship. Many entrepreneurs are reluctant to relinquish control and

31 "Entering a Small Business Funding Contest." *Entrepreneur*. January 25, 2017. <https://www.entrepreneur.com/article/286209>

seek people who will do things only the way they want them done. This is not usually possible, and it is not advisable. You want to build a team of people who can see a problem from different points of view and can offer constructive, honest input. Your best hope is to establish an ethic of clear communication and respectful give-and-take when it comes to criticism because there will be differences of opinion and approaches. If a contest is nothing more than an impetus to build a good team, it is a worthwhile effort. There are many ready sources to find out about these contests; check most entrepreneurship programs at major universities (some are open only to students and/or alumni, but others may be open to others). Also check with major startup sources (such as TechStars or Y Combinator) as well as with local economic development entities. Finally, you might locate contests focused on particular groups for which you may qualify, such as women entrepreneurs or other historically underrepresented groups.

Competitions

Like contests, **pitch competitions** (Figure 7.8) may offer cash prizes or mentorship opportunities to the winners. Some larger pitch competitions have seed funding agreement contingencies that winners must sign before they can accept cash prizes. The key difference between a contest and a pitch competition is that in the latter, you are expected to present your business idea in the form of a presentation, usually with a pitch deck, whereas in the former, you are expected to provide a more informal summary of your idea, though the prizes in contests are less (e.g., \$1,000 in free legal or other business services vs. a much larger cash prize).



Figure 7.8 Universities, communities, funders, and other interest groups offer pitch competitions to support entrepreneurial ventures. Shown are participants in the Road to GES (Global Entrepreneurship Summit) Heartland pitch competition in Overland Park, Kansas. (credit: "Pitch Competition at Road to GES Heartland" by "Global Entrepreneurship Summit Follow"/Flickr, Public Domain)

Look for competitions in your city and in locales within half-a-day's drive such that you could compete in pitch

competitions without spending too much time or resources on travel. Seek out competitions that focus on the market sector you are most interested in. Play to your capabilities and strengths. Some pitch competitions are sponsored by regional economic development offices. Such offices are often associated with small business development centers, which are often based at or connected to major universities, local SCORE offices, and SBA offices. They often offer cash prizes in the hopes of attracting nascent startups to their region. Others connect entrepreneurs to investors waiting with seed money and a contract stipulating what percentage of the business they will own. Some offer money toward legal, accounting, mentoring, and other services. This is how seed funding works, but contest winners would do well to ask for legal advice before signing a contract tying up a portion of their business as a condition of receiving an award or a level of seed funding they might be able to secure through other venues.

This explains why some entrepreneurs seem to tank their own deal on *Shark Tank*. In some cases, perhaps they are foolish to pass up a deal, but in other cases, they have other avenues for seed funding in mind that may give them more control of the future of their company. The last thing you want to do is to win a competition and sign a contract for an investment in the business that does not lead to or protect your end goals. While the show *American Idol* has been a cautionary example^[32] (winners of *American Idol* usually sign an exclusive recording contract that is restrictive for the artist and limits them from signing with a major recording company for several years), most investors will almost always want to own a piece of the long-term future of any entrepreneurial effort they help fund. Before entering a competition, learn whether the nature of the prize requires this type of seed funding agreement or not. Base your decisions on your own comfort level with this type of arrangement as well as research how previous winners have been treated and what successes and failures they have had.

To win a pitch competition, find out exactly who you are pitching to and what criteria they will use. Be sure to thoroughly read through the competition guidelines and learn what you can about the specific judges and their backgrounds. Tailor your pitch to fit contest objectives as much as you can without changing your value proposition or promising features or deliverables you cannot make good on. Match the ask with what the contest offers. Nothing annoys contest judges more than when the prizes and offers are clearly laid out in the contest guidelines and then pitch presenters ask for much more money or for something completely different than what they have on offer.

You should develop one core business model (which you'll learn about in the [Launch for Growth to Success](#) chapter), pitching several times to individuals, entrepreneur groups, investors, and competition judges (unless that is your day job). This will help you develop your pitch for the market niche. Over time, you will learn what to stress and what to downplay or cut, and this may help you win competitions.

As a college student, you can participate in campus pitch competitions to practice learning a market niche. Perhaps the market niche you explore in college will be similar to the ones in which you work after graduating. If you are in a college town, it may be a peculiar marketplace, but it will usually have an abundance of mentorship opportunities making up for what it may lack in business infrastructure. Make your pitch decks professional and rehearse your presentations until they are perfect. You must also be a studious audience member at such competitions. It is not uncommon for an entrepreneur to master their own approach after watching others present for a year or two.

The Collegiate Entrepreneurs' Organization, for which the initialism, CEO, is apt, has chapters in more than 300 universities around the United States. It champions entrepreneurship as a field unto itself rather than as a byproduct of an MBA program or a limited track in a business school, as it is treated in many universities.

32 Nasir Pasha and Matt Staub. "The Prize for Winning American Idol? A One-Sided Contract." *Pasha Law*. February 6, 2015. <https://www.pashalaw.com/prize-winning-american-idol-sided-contract-e148/>

Regardless of the institutional infrastructure, many colleges have chapters.

ARE YOU READY?

Collegiate Entrepreneurs Organization

Research the CEO and whether there is a chapter on your campus. [Table 7.4](#) shows the information from the national organization's website.

Collegiate Entrepreneurs' Organization Vision and Mission^[33]

Vision Statement	Mission Statement
To serve more than 400 colleges and universities helping students achieve their entrepreneurial dreams and goals, CEO provides student entrepreneurs with opportunities, events, chapter activities, and conferences to help start businesses.	To inform, support, and inspire college students to be entrepreneurial and seek opportunity through enterprise creation. With a diverse entrepreneurial community and global network, CEO provides student entrepreneurs with opportunities, events, chapter activities, and conferences to help start businesses. The highlight of the year is the annual Global Conference hosted each fall.

Table 7.4

If your campus has a chapter, contact leadership and find out how to join. If you are already a member, explore how you can become a student leader in the organization. If you are in CEO and are a student leader, come up with a plan to leave a positive, lasting impact on your local chapter. If your campus does not have a local chapter, check with the Student Activities/Campus Life Office to see how you can start one there. There might be a similar group with this focus under a different club/organization title.

- What are some successful businesses that CEO chapters or groups within chapters have started?
- What one or two key changes might be made to make your local chapter stronger?
- Whom can you contact and work with to make that happen?
- What will your primary entrepreneurial objective as a member of CEO be? Can you use the group as a launch pad for your own startup? How?

The entrepreneur website resource AlphaGamma.com lists many of the largest business plan competitions for recent and student entrepreneurs. Here is a list of the top competitions that took place in 2019. Check its website for listings on future competitions.^[34] In most cases, aggregate yearly awards are listed along with other information specific to the competition:

- Harvard Business School New Venture Plan Competition – \$300,000
- Rice Business Plan Competition – \$1.5 million

33 The Collegiate Entrepreneurs Organization. "About Us." n.d. <http://www.c-e-o.org/page/aboutus>

34 8 Kima Mayes. "12 Best Business Plan Competitions in 2019." *Alpha Gamma*. February 12, 2019. <https://www.alphagamma.eu/opportunities/12-best-business-plan-competitions-in-2019/>

- Milken-Penn GSE Education Business Plan Competition – \$1,000,000
- Utah Entrepreneur Challenge – \$100,000
- Next Founders – \$30,000
- Technovation world Challenge – \$42,000
- CodeLaunch – \$67,000
- Burton D Morgan – \$100,000
- Edward L. Kaplan Business Model Competition – \$100,000
- UPitch Competition – \$10,000
- The Hult Prize Student Competition – \$1,000,000
- Thiel Fellowship – \$100,000

This list doesn't include some other valuable competitions. The George Washington University business plan competition, called the GW New Venture Competition, in 2017 awarded more than \$300,000 worth of cash and in-kind services in all.^[35] The Baylor University New Venture Competition is open to colleges across the country and awarded a total of more than \$85,000 to student teams from Arkansas, Iowa, and Pennsylvania with finalists coming from California and Illinois as well.^[36] Singapore hosts a global business plan competition with prizes totaling \$1 million.^[37] Smith College's Draper Competition for Collegiate Women Entrepreneurs offers more \$60,000 in total prizes, including a top cash award of \$10,000 plus a scholarship.^[38] Arizona State, Indiana, and many other universities host these contests. Deadlines are staggered year-round. Competitions are sometimes open to nationwide competitors, but some are open to students in only a particular campus community or region. Competitions are not necessarily tied to academic schedules. Research the competitions that are most appropriate for you and your program, and collaborate with a professor to enter, learn, network, and ideally, win funding.

Successful entrepreneurship happens when innovative people find fertile ground, develop ideas and concepts, and persevere through learning to fit new products in appropriate marketplaces. College graduate entrepreneurs owe it to themselves to research the entrepreneurial community they would prefer to target. Economic development offices all over the world encourage entrepreneurs to come to their cities because they need innovative people with energy and a willingness to take risks to come up with the economic engines of the future.

One of the ways regions incentivize entrepreneurship is through contests, which are any means of competing for startup funding that does not involve a pitch competition. If you can build a team for a static contest, you are well on your way to building a team to pitch new innovations.

35 "New Venture Competition." *George Washington University*. n.d. <https://newventure.gwu.edu/history-mission>

36 "Baylor New Venture Competition." *Baylor University*. n.d. <https://www.baylor.edu/business/newventurecompetition/>

37 "Lee Kuan Yew Global Business Plan Competition." *Singapore Management University*. n.d. <https://www.smu.edu.sg/lky>

38 "Draper Competition." *Smith University*. n.d. <https://www.smith.edu/academics/conway-center/entrepreneurship/draper-competition>

Key Terms

ask specific amount of money or type of assistance requested in a pitch

corporate narrative story about how a successful company grew from something small into something broad and powerful, serving thousands or even millions of people; it may have marketing purposes, and it may serve as an inspirational story for leaders and employees

elevator pitch abbreviated pitch, a memorized talk that can get you into the door to put your full pitch deck on display

entrepreneurial contest any entrepreneurial competition other than a pitch competition; contests may entail submitting business models, long-form prospectuses, or forms tailored to contest specifications

fear of missing out (FOMO) need to keep up with peers and the personas they represent in social settings, particularly on social media

iceberg principle writing principle useful for preparing contest documents and pitch decks; following this principle, each word or sentence in the submission or presentation should be backed up with a wealth of supporting information and details that go unspoken in the pitch or proposal, but which you have at the ready should an investor take interest in the details and your knowledge of them

ideation purposeful process of opening up one's mind to new trains of thought that branch out in many directions from a stated purpose or problem

mission statement statement of an organization's reason for being that defines its primary long-term goal, explains what the venture will do, what value it will provide to the end customer, and how it will accomplish that action

noncompete agreement formal agreement that the person signing the document will not work for another organization that is a direct competitor of their current employer during employment and usually for a specified length of time after employment ends

nondisclosure agreement (NDA) contract that carries harsh financial penalties should one party to the agreement disclose what they know of the proprietary information

pitch formal presentation in which you ask for something and that is delivered (usually) to potential investors in a startup

pitch competition competition that may have cash prizes or mentorship opportunities for winners; you are expected to present your business idea in the form of a presentation, usually with a pitch deck

pitch deck slide presentation that you create that gives a quick overview of your product and what you're asking for

problem-solution narrative brief story of a sentence or two that states a problem affecting many people and offering a solution that is innovative, unique, insightful, or all of these

user interface (UI) what a customer sees when they use your product; having a variant of a UI is not necessarily grounds for establishing a patent, but having unique design in the broader sense may help you to secure patent protection

value proposition summary describing the benefits (value) customers can expect from a particular product or service

work-for-hire agreement agreement between an individual employee and a company states that ownership of innovations belongs to the company, even if an individual makes substantial contributions to the product

Summary

7.1 Clarifying Your Vision, Mission, and Goals

The most basic formula for telling the story of your innovation is the problem-solution narrative.

Entrepreneurs are problem solvers, but they need to strategize to battle competitors and to weather the risks inherent in starting a new venture. Vision and mission statements are crucial to planning a venture. Vision statements are broader than mission statements. Entrepreneurs can set attainable goals with the help of the SMART goals framework. All of these tools—vision statements, missions, and SMART goal formulation—help build on the venture’s origin story and serve as a general and specific organizing narrative.

7.2 Sharing Your Entrepreneurial Story

This section outlined the importance of conceptualizing and communicating your venture in narrative form. Not every startup venture is a fairy tale, but if you can recognize and apply trusted story formats, you can help establish prominence for your brand, your products, and their specific features. Eventually, your story might be the genesis of a corporate narrative if the startup grows to become one. There are advantages and disadvantages to crafting stories. The advantages are that stories help you communicate the problem your innovation addresses, the solution it offers, and its market need. The disadvantages are that a story can create the fear of missing out in consumers and can set unattainable, rigid goals that can cause you to miss key factors in the venture’s development.

7.3 Developing Pitches for Various Audiences and Goals

A pitch is a request for support, either financial investment or some kind of support. A great pitch takes into account the intended audience and the goal of the talk, and prioritizes information accordingly. In other words, it answers the questions Who? (Who are we pitching?), What? (What are we pitching to them?), and Why? (Why are we pitching: What is the “ask”?). Once you establish these elements, you need to develop a professional pitch deck and include engaging materials that share your passion and communicate your vision. Your pitch should paint a picture of a successful product or service delivering strong returns for investors or for those who choose to work for you or do business with you.

This section offered an outline of elements for a professional pitch deck and provided a few details about what ought to be included. Pitches may vary in length and should take into consideration the demands of contest rules and the quirks of potential investors. That said, there are elements that almost every pitch needs to include, and they are presented in the approximate order in which they might appear in your pitch deck. In general, you should cover all elements of the pitch as outlined here, but the level of detail may vary based on the audience. The entrepreneur should ask the key contact what specific area(s) she should cover so as to make the best impact.

We also discussed crafting different pitches with different senses of vision in mind, which can be particularly helpful post-pivot when an organization has a product but needs to adjust it to target new markets. Finally, we looked at the elevator pitch, which is miniature version of your more complete professional pitch and an introduction to your vision. The pitch before the pitch, if you will, should be clear, concise, and catchy—enough to get an investor’s attention without driving him or her to hop off the elevator.

7.4 Protecting Your Idea and Polishing the Pitch through Feedback

Protecting your intellectual property is something you must plan for as an entrepreneur. In crowded marketplaces, small innovations or variations on a theme might be difficult to patent, and the process takes time; thus, not every product or iteration needs to be patented. Investors are often more interested in the potential of a leader and her or his team than the potential of an idea. With that in mind, the protection of an idea shouldn’t supersede building a great team or pitching your idea widely enough to tap into appropriate

funding channels.

A patent can protect your intellectual property. Other protections are nondisclosure agreements, work-for-hires, and noncompete agreements. If someone breaks a contract, your only recourse is through legal channels. It is better to conduct thorough research to be as confident in your team as possible before you share your ideas, designs, and prototypes with those who will be helping you make your innovation a reality.

Entrepreneurial learning comes from seeking feedback on your ideas from potential customers and investors. Feedback on your pitch itself can help you refine how you present those ideas.

7.5 Reality Check: Contests and Competitions

Pitch competitions may be global, national, or regional in scale. There is no single model for a pitch competition, but teams can prepare based on the terms that organizers set forth, and they can anticipate the need to demonstrate key core elements including value proposition, marketplace and competition, funding strategy, brand, and team. Winners of pitch competitions would do well to examine any contracts they must sign before accepting cash awards or investments; some deals are structured unfavorably for the entrepreneur.

If you lose a pitch competition or contest but enhance your network of contributors and collaborators and/or find a mentor, it has been a successful early effort. Consider developing your collaborator network while still in school using social media tools and entering into college competitions, some of which are listed in this chapter.



Review Questions

1. _____ is like the origin story for a brand.
 - A. problem-solution narrative
 - B. purpose
 - C. mission statement
 - D. vision statement
2. Identify the correct terms used in this text for setting SMART goals.
 1. specific, measurable, attainable, relevant, time-bound
 2. specific, marketable, attainable, relevant, time-bound
 3. specific, measurable, achievable, relevant, timely
 4. specific, measurable, attractive, relevant, time-bound
3. What is defined as the thing your organization does that people will pay for or contribute to?
 - A. earnings statement
 - B. profit proposition
 - C. value for revenue proposal
 - D. value proposition
4. When an entrepreneur's story becomes part of the mythology of a corporation and its purpose, this is known as a/an _____.
 - A. mission statement
 - B. vision statement
 - C. purpose statement
 - D. corporate narrative

5. When someone supports your products and your brand so much that they begin speaking on your behalf in person and on social media, they are known as a/an _____.
A. brand advocate
B. corporate narrative sponsor
C. impetus
D. entrepreneurial drive
6. In previous decades, a term for a related phenomenon was “Keeping up with the Joneses.” This refers to a sense that if we are not living our best life, having the most fun, enjoying the best foods, fashion, and so on, then we are not living the life we should. This term can refer to both a short-term concern and a general anxiety that others are enjoying life more than we are.
A. brand advocacy awareness
B. FOMO, or fear of missing out
C. “Jonesing”
D. happy ever anxiety
7. Pitches have different purposes, depending on the target audience. The constant in every pitch is that it _____.
A. must be short
B. makes a request for support
C. includes six elements and about ten slides
D. is derived from a corporate narrative
8. An abbreviated pitch that you memorize is called an elevator pitch. Meant to be given in person, it should be _____.
A. brief
B. memorized
C. connected to a request for more time to make a more complete pitch
D. All of these options are correct.
9. A graphic worksheet that sets forth the value proposition of any startup and allows you to identify stakeholders, and key inputs and outputs is the _____.
A. business model generator
B. business model canvas
C. business mobility canvas
D. business meditation and creativity matrix
10. An agreement between an individual employee and a company that states that innovations belong to the company, even if an individual makes substantial contributions.
A. nondisclosure agreement
B. work-for-hire agreement
C. noncompete clause
D. patent
11. A _____ is a license granting exclusivity, as in the exclusive rights to manufacture and sell a specific product.
A. patent
B. UI
C. nondisclosure agreement
D. noncompete clause

12. Numerical measurements providing data on how people use a product or service results in _____ data.
- A. qualitative
 - B. quantitative
 - C. lean
 - D. build-measure-learn
13. More complex data indicating *why* and *how* people use or might use a product or innovation is known as _____ data.
- A. qualitative
 - B. quantitative
 - C. lean
 - D. build-measure-learn
14. The _____ is the specific request for funding, mentorship, collaborators, and/or business partners that appears in a pitch.
- A. ask
 - B. request
 - C. pitch
 - D. contest
15. The student entrepreneurship organization highlighted in this chapter is _____.
- A. CEO
 - B. CFO
 - C. Future Entrepreneurs of America
 - D. Pitch Competitors International



Discussion Questions

1. After a search, give examples of companies with clear vision but poorly defined mission statements.
2. What are the pitfalls in crafting a vision statement that is too broad or too narrow?
3. Place the SMART goals in order of importance and discuss why you chose that order.
4. How can telling your entrepreneurial story help build a brand?
5. What is the risk of falling in love with your own entrepreneurial story?
6. What would it take to rework a pitch deck created for a campus competition and present it to an individual angel investor?
7. In what ways is an elevator pitch an abbreviation of a longer professional pitch? In what ways does it differ?
8. Reflect on the Airbnb pitch deck. What would the elevator pitch version of that presentation sound like? What would the ask be for the new elevator pitch?
9. At what stage of product development for a manufactured good should you file for patent protection?
10. Are noncompete clauses fair in entrepreneurial work? Why so? Are noncompete clauses always fair for employees? Why or why not?

11. Research the average time it takes to win a patent in an industry you are interested in. What are some factors that contribute to delays in patent seeking?
12. It is common to develop a product based on limited feedback using as few resources as possible only to watch as no one uses or buys the product. Can failure be a valuable part of finding product-market fit? Why or why not?
13. This section advocates using qualitative and quantitative data to develop products and find the right market for them. When might it be appropriate to rely heavily or solely on quantitative data? Can you think of a product that had very high usage rates that was incredibly popular but that almost as quickly fell out of favor? Which is better at predicting a fad: qualitative data or quantitative data?
14. Imagine entering your campus pitch competition. What is your strategy to win?
15. If your campus does not have a competition, what national competition might you enter? What is your strategy to win? Do some research online to find what has put past winners ahead.



Case Questions

1. The John Deere Company has one of the most enduring corporate narratives in the world. John Deere was a real person who developed an early, successful steel plow that in some ways contributed to the agricultural revolution the world over. Research and re-tell the John Deere story. What drove John Deere's success? How does the corporation foster brand advocacy today through its media presence and publications? Some would argue that the John Deere Company has achieved the entrepreneur's vision. Is it possible for a company to truly live up to its vision statement? Does that describe what John Deere the company did for John Deere the person, or is that an overstatement?
2. Princeton University professor, president, and CEO of New America, a think tank dedicated to "renewing America in the Digital Age," Anne-Marie Slaughter wrote an article for *The Atlantic* in 2012 called "Why women still can't have it all."^[39] Slaughter starkly and personally lays out the challenges of maintaining the elusive work-life balance. She advocates for taking a long-term view in one's life and balancing the needs of family with career aspirations. Can a successful entrepreneur have it all? What do entrepreneurs' stories and corporate narratives suggest? What do you think of the serial entrepreneur who builds a company to sell it and then takes time between ventures to spend time with family and friends? Is this version of the entrepreneurs' story rare? If you find it to be rare, do you think this might be because it rarely happens or because it doesn't fit social expectations of workaholic success stories?

39 Anne-Marie Slaughter. "Why Women Still Can't Have It All." *The Atlantic*. July/August 2012. <https://www.theatlantic.com/magazine/archive/2012/07/why-women-still-cant-have-it-all/309020/>

3. Design plays a major role in how investors and other audiences respond to your pitch deck, but for one startup, achieving near perfection in their slide design did not create a pathway to success. Wattage Inc. was pitched as a modular electronics company that would allow users to design their own electronic equipment from modular parts, add art and other customized pieces, and have it shipped directly to them. To take a massive market—consumer electronics—and add a customization element was incredibly ambitious. The deck made for an aesthetically pleasing failure.^[40] Potential investors would not open their checkbooks, but would smile and suggest that these guys could always go into business making pitch decks for other startups.^[41] The innovation that promised to make us all inventors failed, at least for now, but it can teach us many lessons about developing pitches. View [Wattage's pitch deck \(https://openstax.org/l/52WattPitchDeck\)](https://openstax.org/l/52WattPitchDeck) to learn more.

- A. Can great design *hurt* a pitch presentation? How, or if no, why not?
- B. What do you think was missing if investors loved the pitch deck, appreciated the tactile prototypes, and yet decided not to invest?
- C. There is a “go-big-or-go-home” sentiment to this kind of startup that tries to shake up a massive marketplace. After visiting these links and reviewing what Wattage Inc. was trying to build, could you come up with a scaled-down or more focused version of the concept that might work? One issue with this type of startup is that it can only target very large investors. How might you build different pitch decks targeting different types of investors (electronics investors, those who invest in value-added customization products, modular tech enthusiasts, and so on)?

4. Zappos is sometimes cited as an example of the leanest of lean startups conducting the build-measure-learn process successfully.^[42] The company started with no inventory and instead started taking orders to ship shoes to customers who ordered online. They let the market pull the inventory needs out of their startup rather than buying a store of shoes and hoping to sell them all. Their inventory was their local shoe stores. They started out buying their inventory at retail price and then marking up a surcharge for the service of seeking, sorting, and shipping.

There may not be many pairs of shoes worth more than retail price, but people were willing to pay for convenience, and Zappos could measure popular sizes, brands, and trends in ways that would help them anticipate inventory needs as they grew.

- A. In what ways is the Zappos lean startup story about feedback?
- B. Ideate a potential startup, besides a food delivery service, built around efficiently or conveniently packing and shipping something others have already made.
- C. Ideate a potential startup where you could conceivably earn revenues even when buying your inventory at retail price. What makes you think some online customers would pay a premium? What kind of business learning would you have to do to improve on the Zappos lean startup model?
- D. As soon as a retailer or other service provider notices that a startup is making a profit adding convenience to their existing business infrastructure, what is to keep them from entering the marketplace? Are there any protections for the service you propose? How might you protect such a business?

40 Jeremy Bell. “Well, We Failed.” *Medium*. May 5, 2017. <https://medium.com/inside-wattage/well-we-failed-77e795e16ecf>

41 Taylor Lorenz. “Everybody Kept Telling This Startup That Its Pitch Deck Was Beautiful—But They Didn’t Invest.” *Business Insider*. May 12, 2015. <http://www.businessinsider.com/wattage-pitch-deck-couldnt-save-startup-from-failure-2015-5>

42 Anastasia. “How the Build-Measure-Learn Cycle Really Works.” *Cleverism*. July 26, 2015. <https://www.cleverism.com/how-build-measure-learn-cycle-really-works/>

5. Entrepreneur.com is cited or referenced several times in this chapter, but even contributors to this publication, which relies on serving a culture of entrepreneurs as part of its value proposition, sometimes question its own community's trends. Their article, "We've Become So Obsessed with 'Innovation' That It's Now Meaningless" challenges a perceived overuse of the term "innovation." Read the article here: <https://www.entrepreneur.com/article/249408>.

Look for news of college pitch competition winners. Are they all truly innovations? Find a college pitch competition, business model competition, or elevator pitch competition winner who truly *is* innovative, and find ones, perhaps, who are variations of Uber—delivering stuff and charging a premium for convenience and little more.

- A. Do you agree with the guest commentary published in Entrepreneur.com? If so, why? If not, why not?
- B. What can you do in your work as an entrepreneur to develop value propositions that go beyond what can be dreamt up in a classroom?
- C. What can you read and do to come up with truly fresh ideas? What places can you visit? What networks and mentors can you tap?
- D. How can you as an individual move past an "innovation" obsession to solve people's problems.
- E. Can you be more than another college innovator? Can you be a superhero entrepreneur?



Suggested Resources

7.1 Clarifying Your Vision, Mission, and Goals

This publication offers a thematic analysis of how mission statements are used in higher education:

[https://muse.jhu.edu/article/](https://muse.jhu.edu/article/196947?casa_token=c_jU2qubpM4AAAAA:q2toMk4pXZef4cYt0mE7ZFk7_rDz_q_FNyoHULHKWmGTGjEGbZO-5LQ9ychtjRZ3phUJV60jxg)

[196947?casa_token=c_jU2qubpM4AAAAA:q2toMk4pXZef4cYt0mE7ZFk7_rDz_q_FNyoHULHKWmGTGjEGbZO-5LQ9ychtjRZ3phUJV60jxg](https://muse.jhu.edu/article/196947?casa_token=c_jU2qubpM4AAAAA:q2toMk4pXZef4cYt0mE7ZFk7_rDz_q_FNyoHULHKWmGTGjEGbZO-5LQ9ychtjRZ3phUJV60jxg)

This video provides a walkthrough for crafting your mission statement: <https://www.entrepreneur.com/article/65230>

7.2 Sharing Your Entrepreneurial Story

Using empathy in storybuilding: <https://www.inc.com/craig-bloem/all-strong-startup-brands-have-a-great-story-heres-how-to-tell-yours.html>

Harvard Business Review's how to craft a corporate narrative: <https://hbr.org/2016/03/how-to-build-a-strategic-narrative>

7.3 Developing Pitches for Various Audiences and Goals

Pitch deck templates: <https://articles.bplans.com/what-to-include-in-your-pitch-deck/> and

<https://www.forbes.com/sites/allbusiness/2017/03/04/how-to-create-a-great-investor-pitch-deck-for-startups-seeking-financing/#4bbce7c2003e> and <https://www.startupgrind.com/blog/the-quick-and-dirty-guide-to-creating-a-winning-pitch-deck/>

7.4 Protecting Your Idea and Polishing the Pitch through Feedback

Patent pitfalls to avoid:

<http://www.ipwatchdog.com/2016/01/23/patent-drafting-learning-from-common-patent-application-mistakes/id=65243/>

Giving and receiving better: <https://www.entrepreneur.com/article/219437>

NDA templates: <https://www.rocketlawyer.com/>

7.5 Reality Check: Contests and Competitions

The International Business Model Competition that focuses on Lean Startup models, sponsored by BYU and Harvard: <http://www.businessmodelcompetition.com/>



8

Entrepreneurial Marketing and Sales

Figure 8.1 Birchbox founders Katia Beauchamp and Hayley Barna have disrupted the beauty and fashion retail industries with their monthly cosmetics sample boxes. (credit: modification of “487908877AP00050_TechCrunch” by TechCrunch/Flickr, CC BY 2.0)

Chapter Outline

- 8.1 Entrepreneurial Marketing and the Marketing Mix
- 8.2 Market Research, Market Opportunity Recognition, and Target Market
- 8.3 Marketing Techniques and Tools for Entrepreneurs
- 8.4 Entrepreneurial Branding
- 8.5 Marketing Strategy and the Marketing Plan
- 8.6 Sales and Customer Service



Introduction

Birchbox founders Katia Beauchamp and Hayley Barna loved shopping for beauty products but found the experience expensive and frustrating. So many brands making so many claims—how could anyone find the best beauty buys without wasting money on products they might not need? There had to be an efficient and cost-effective solution to this problem.

Their solution was to start Birchbox: an easy and affordable way to shop online for the best and newest beauty products by trying out samples first. Their entrepreneurial concept requires customers to share lifestyle and grooming preferences with Birchbox via an online form. The company then sends a personalized box of beauty product samples from brand partners along with information about each product. If customers like the offerings, they can purchase the full-size merchandise from big cosmetic manufacturers through Birchbox with a few clicks. Birchbox was a success from the start. Beauchamp and Barna were able to create relationships with cosmetic brands, fund their website, and hire the necessary workforce. However, they did not turn a profit until a few years later.

While Birchbox was initially an innovator and disruptor within the cosmetics and beauty supply market by supplying products in a new and different way, competition increased as retailers like Macy's, Target, and Walmart started to offer similar services to customers worldwide. Birchbox was valued at \$485 million in 2014, but stiff competition plus the high costs of operations and customer acquisition pressured the new company. In 2016, Birchbox aggressively cut costs in marketing, logistics, production, and staffing, and invested in mobile platforms that allowed the company to secure their competitive advantage, resulting in the company turning a profit for the first time in 2017.^[1] Birchbox has continued to expand its business, thanks to the founders' ability to distinguish their brand from competitors by collecting customer information to customize experiences and by providing the experience through platforms that reach a vast number of customers online.

8.1 Entrepreneurial Marketing and the Marketing Mix

Learning Objectives

By the end of this section, you will be able to:

- Distinguish between traditional marketing and entrepreneurial marketing
- Describe the seven elements of the marketing mix

Being a successful entrepreneur often means being able to balance the many different aspects of a business, such as financing, accounting, and management. One of the most important of those aspects is marketing. After all, if no one hears about the new product, how can it be successful? According to marketing research company CB Insights, in a survey of 101 companies that failed, 14 percent of them failed due to poor marketing.^[2] **Marketing** is an umbrella term given to those activities that companies use to identify consumers and convert them into buyers for the purposes of achieving a profit. No matter the size of the enterprise, marketing lays the foundation for how a company reaches and serves its target customers. Whether it's a global brand such as PepsiCo or Apple, a small- to mid-size company such as Birchbox, or a small restaurant or local gym, marketing refers to the core strategies companies use to reach and sell to customers. As you might expect, the way entrepreneurs market their new product is somewhat different from how a large company markets an established brand.

Traditional Marketing

Traditional marketing for large businesses such as Coca-Cola, Disney, and Dell tends to focus on managing and growing existing programs and brands. Companies like these enjoy greater resources such as substantial financial support and large numbers of marketing professionals to steer their efforts. However, marketing for small- and medium-sized businesses (those with 500 or fewer employees and less than \$7.5 million of yearly receipts, as defined by the Small Business Administration)^[3] is different because financial resources are limited, and it is often the entrepreneur alone who is in charge of marketing efforts. If they do have funds for marketing expenses, they might use a small agency on a fee-for-project basis.

As you have learned in previous chapters, small start-ups are usually tight on resources, so they need to augment their resources through creativity and hard work. While having limited resources creates obvious

1 Clare O'Connor. "Pioneering Beauty Startup Birchbox Turns Profit after Tough 2016." *Forbes*. April 12, 2017. <https://www.forbes.com/sites/clareoconnor/2017/04/12/pioneering-beauty-startup-birchbox-turns-profit-after-tough-2016/#1223b3c46fd5>

2 Erin Griffith. "Why Startups Fail, According to Their Founders." *Fortune*. September 25, 2014. <http://fortune.com/2014/09/25/why-startups-fail-according-to-their-founders/>

3 "Meet Size Standards." Basic Requirements. U.S. Small Business Administration. n.d. <https://www.sba.gov/federal-contracting/contracting-guide/basic-requirements#section-header-6>

challenges, being small also has its advantages. For example, it allows new companies to be more flexible, agile, and creative than their established competition. These qualities can allow new companies to disrupt their industries and become major global players by employing entrepreneurial marketing practices.

Entrepreneurial Marketing

On a basic level, **entrepreneurial marketing** is a set of unconventional practices that can help start-ups and younger firms emerge and have an edge in competitive markets. The main difference between these and traditional approaches is that entrepreneurial marketing tends to focus on satisfying the customer and building trust by providing innovative products and services that disrupt or appeal to a specific market. [Table 8.1](#) provides an overview of differences between traditional and entrepreneurial marketing.

Traditional versus Entrepreneurial Marketing	
Traditional Marketing	Entrepreneurial Marketing
Greater amount of resources	Few to no resources; founder drives efforts (sweat equity)
Management of an established brand, reminder advertising	Must be ingenious, energetic, and persistent to develop story and brand; leads to trust
Financial and market share goals	Satisfaction and awareness goals
Manage existing customers	Capture first customers; develop a client base and long-term relationships
Manage existing products, promotion, pricing, placement, people, physical environment, and process (the “7 Ps”)	Develop new products, price points, channels (placement), communication, process, training, and design
Continue doing what works	Trial and error; market pilots
Communication with customers standardized, one-directional; more difficult to create one-on-one relationships	Communication with customers is more fluid and spontaneous; two-way relationships

Table 8.1

As the table shows, entrepreneurial marketing emphasizes flexibility and innovation as a way to stake a claim within competitive markets. For example, consider how Drybar founder Alli Webb used her understanding of market needs to create a niche within the traditional hairstyling industry. A hairstylist by trade, Webb spent five years as a stay-at-home parent, drying hair for friends and family members at their homes to make extra cash. During this time, she realized there was a market need for “just” blowouts, or professional hair drying and styling.

Seeing this need, Webb developed a business model that would offer women a way to get a blowout without having to also get a cut or color. Webb didn’t invent the blowout; she just reinvented the space to do it,

focusing on that sole aspect of hair styling, and offering the service in trendy settings (Figure 8.2). By being flexible and innovative through a new space to provide this service, Drybar was able to carve a niche in the hairstyle industry. In business since 2008, Drybar is still expanding. Webb expected to open at least 20 new locations in 2019.^[4]



Figure 8.2 Simple innovative ideas such as Drybar can carve new market niches that weren't served before. Drybar has now grown to over 100 locations across the US.^[5] (credit: work by ralph and jenny/Flickr, CC BY 2.0)

Marketing Mix

One of the biggest misconceptions people have about marketing is that it is all about promotion, or how a company sells or advertises something. But the truth is, promotion is just one facet of the **marketing mix**, which describes the basic set of strategies and approaches that marketers use to identify and reach their target market. A **target market** is the specific group of consumers for which a company seeks to provide a good or service.

One common way of understanding and remembering the components of the marketing mix for products and services is by thinking in terms of the "7 Ps." While each of these can be part of a company's marketing mix, the first four relate more to products: product, pricing, promotion, and place (and traditionally have been called "the 4 Ps of marketing"). The remaining three relate more to services: physical environment, process, and people. While the 7 Ps are conceptually the same for all businesses, how a company addresses each "P" will be specific to that company's needs and goals.

For a better understanding of the marketing mix, look at how [Figure 8.3](#) breaks down the 7 Ps into their related activities.

4 Diana Blass. "Drybar's Rise to Success with NetSuite Has a Hidden Message for Partners." *CRN*. October 4, 2019. <https://www.crn.com/news/cloud/video/drybar-s-rise-to-success-with-netsuite-has-a-hidden-message-for-partners>

5 DryBar. "About Us." n.d. <https://www.thedrybar.com/about-us/>



Figure 8.3 Each P of the marketing mix should work with the other Ps to create value for a business and its customers. *Product, promotion, price, and place* relate more to goods, while the *people, physical environment, and process* relate more to services. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Product

Within the marketing mix, **product** refers to a good or service that creates value by fulfilling a customer need or desire. Goods are tangible products that can be touched, smelled, heard, and seen, such as a pair of tennis shoes, a granola bar, or a bottle of shampoo. In contrast, services are intangible products. They usually entail paying an expert to do something for you, such as car repair or house cleaning.

Companies can bundle both goods and services together to create extra value for their customers. Birchbox, for example, provides goods (product samples) and services (customized product recommendations) to satisfy their customers' desire to be able to buy beauty products in a hassle-free manner. The value Birchbox provides to customers relies on their ability to do both. In the United States, service-oriented businesses are increasingly playing a larger role in our local and national economies.

For start-ups, defining the value of the products they are going to offer is an important step toward identifying their competitive advantage within a marketplace. On a basic level, if you don't know what benefit your product provides or what need it fulfills, neither will your customers. Kevin Plank, founder of Under Armour, knew that the value of his product would benefit many athletes who were tired of having to frequently change their wet sportswear. As a former football player, he had spent many hours training and enduring drenched practices, and wondered how he could alleviate this problem that companies didn't address well with cotton sportswear. After college, he decided to take his idea to the next level and started a company making athletic wear that had special microfibers that kept athletes dry throughout practice and games. He then embarked on a trip to try to sell his value proposition to college football teams on the east coast. Nearing the end of 1996, he landed his first sale of shirts to Georgia Tech, which totaled \$17,000—and the rest is history. Under Armour became a strong competitor to Nike and Adidas by providing a new type of athletic wear that has revolutionized performance by keeping athletes dry.^[6]

In contrast, Jawbone, the company that manufactured Bluetooth speakers and other hardware, has gone out of business because it changed its focus from audio to health devices, which placed it directly in competition with FitBit and similar hardware companies. Product failures, among other problems, caused this tech company to flop.^[7] The company is now working on reinventing itself and will use artificial intelligence and sensor hardware to provide customers information about their health through a subscription. The wearable sensors will record vital customer information that will be tracked on an online platform that will then provide suggestions for medical action.^[8] The company's redesign is not yet complete, so it is not officially in business again yet.

Promotion

Communicating a product's benefits to customers is a significant aspect of any marketing mix. Even if a product is the best in its class, a company must communicate this value to customers, or it will fail. This is what **promotion** does: It is the process of communicating value to customers in a way that encourages them to purchase the good or service. Promotions must have a goal, a budget, a strategy, and an outcome to measure. Companies must use their promotional budget wisely to create the best results, which can include sales, profit, and awareness through the use of a cohesive message throughout the campaign.

Some typical forms of promotion are advertising, social media, public relations, direct mail, sales promotions, and personal selling.

Advertising is a form of mass communication that allows companies to reach a broad audience through TV, radio, newspaper, Internet, magazines, and outdoor ads. Many of these media can be quite expensive for small companies, forcing them to choose one strategy, or to opt for other less expensive tactics such as guerrilla marketing or viral marketing (which will be addressed in [Marketing Techniques and Tools for Entrepreneurs](#)). As [Table 8.2](#) shows, the advantages of advertising include reaching a mass audience and increasing sales, but on the downside, the cost may be too much to bear, and the company might face a difficult time reaching the right target. As we move from advertising to social media, we can see that social media allows for more accurate targeting and better metrics to assess results.

Social media is a must-use tool for entrepreneurs to connect with consumers, especially younger

6 Under Armour. "Our Story." n.d. <http://www.uabiz.com/company/history>

7 Lauren Goode and Chris Welch. "Jawbone Is Going Out of Business." *The Verge*. July 6, 2017. <https://www.theverge.com/2017/7/6/15931080/jawbone-going-out-of-business-report>

8 Conor Allison. "Jawbone Health: Everything We Know So Far about the New Premium Health Platform." June 17, 2019. <https://www.wearable.com/health-and-wellbeing/jawbone-health-hub-medical-health-wearable-2144>

demographics. Many customers can be found online in one social media platform or another. The goal is to find the customers who fit your target market. The benefits of social media include targeting customers more accurately using the platform of their choice and being able to communicate directly with them. These platforms include networking sites such as Facebook, Twitter, and LinkedIn; photo and video sites such as Snapchat, Instagram, and Pinterest; blogs; and news sites. A business must find the time to connect with its customers wherever they are. As a budding entrepreneur, the best way you can start connecting with them is by identifying your target customers and by figuring out what kind of social media they frequent. You can ask your current customers about their social media habits; you can look up reports about the types of social media your customers frequent; or you can use special software that tracks conversations on social media that pertain to your business and industry.

For example, you may find out that your young customers hang out mostly on Twitter and Instagram, and not so much on Facebook. You could benefit from focusing on only those two platforms and finding out about their conversations. You may want to search hashtags and stories that pertain to your type of business so you can join their conversation. You could then set up your profile, write relevant content and hashtags that make sense to your consumer, and request to follow influencers who can help you create awareness of your business and product. Once you have a profile set up, there are many ways you can create campaigns: contests, discounts, or by simply providing useful content that your customer appreciates. The goal is to be part of the conversation and not sound like you are selling something.

In addition to posting good content and reaching out to influencers, you may also benefit from buying ads that can be geographically targeted to your customer and that are more affordable and effective because you're directly targeting someone who is specifically interested in your product. The disadvantages of targeting social media include the time and skills required to engage with customers, and the need for consistently fresh content. Many start-ups believe that having a Facebook page will be enough to reach their customers, but their customers may spend more time on other social media platforms. The time and effort required to find the right platform, develop good content, and connect with customers on a daily basis is worth it.

Public relations are the efforts and tools companies use to connect and develop goodwill with their constituents. Constituents can include customers, investors, employees, business partners, government entities, and the community at large. The goal is to highlight the company in a positive light by contributing as a community player. Tools can include newsletters, press conferences, community service, events, sponsorships, press releases, articles, and stories that help entrepreneurs create a positive image about their company and get its name out there. If participating in an event, for example, the sponsor will display the logo and name of the company in a place where everyone can see it. This shows the company as a supporter of the community and as a provider of not just products and services, but of intangible contributions, such as supporting the dreams of the event participants. The goal is not to make a sale at that point, but to impact the community and create positive relationships in general because it's the right thing to do—it may positively influence the consumer when they make a purchase in the future.

Direct mail, which is a way to connect to consumers via email or through printed, mailed pieces, is also a necessary tool to keep in touch with customers, especially when creating long-term relationships. The advantage of this strategy lies in connecting to a customer who is already interested in your product and would like to receive news and promotions from you; however, the disadvantage is that it usually takes time to create these lists because it involves collecting information about customers during events, through online requests, or at the cash register. It also can be expensive to send out pieces of mail that might end up in the trash.

Sales promotions are incentives that attract attention and push the customer to take action. These incentives include discounts, samples, rebates, rewards programs, gifts, and premiums. Sales promotions can attract new customers, but it may also reduce profits because coupons and discounts are offered for trying a product.

Personal selling is a tool that uses face-to-face interactions to communicate and influence a customer to make a purchase. It is especially suited for luxury goods. Usually, higher-priced products will need a longer selling process, and sales personnel will need more training on the product to learn about its unique qualities. This is one of the most expensive ways to reach and retain customers, but it can be worth the investment.

Overall, a good entrepreneur must find the right mix of marketing communications to reach customers. This will vary depending on the start-up's budget, goals, and strategies. [Table 8.2](#) identifies the advantages and disadvantages of each, as they relate to small and new businesses.

Advantages and Disadvantages of Promotion Types

Promotion Type	Examples	Advantages	Disadvantages
Advertising	<ul style="list-style-type: none"> • TV ads • Radio spots • Newspaper and magazine spreads • Internet ads • Billboards 	<ul style="list-style-type: none"> • Can reach a mass audience • Great for creating brand recognition • Increased sales 	<ul style="list-style-type: none"> • Can be expensive • Access can be limited • Some targeting is possible, but it is impossible to fully control who sees the ad
Public Relations	<ul style="list-style-type: none"> • Sponsoring community events • Charitable and civic involvement • Scholarships and grants • Press conferences 	<ul style="list-style-type: none"> • Develops positive brand recognition • Creates goodwill toward company and brand within the community 	<ul style="list-style-type: none"> • Big events and public relations campaigns can be resource intensive • Not focused on generating sales
Social Media	<ul style="list-style-type: none"> • Social networking sites such as SnapChat, Twitter, and Facebook 	<ul style="list-style-type: none"> • Pervasive and inexpensive access to massive audiences • Target markets are highly customizable based on available data 	<ul style="list-style-type: none"> • Many companies use social media, so it is hard to stand out from the crowd • Can be time-consuming • Success requires dedicated personnel with special

Advantages and Disadvantages of Promotion Types

Promotion Type	Examples	Advantages	Disadvantages
	<ul style="list-style-type: none"> • Blogs and vlogs • Influencers (industry experts who act as advocates) 	<ul style="list-style-type: none"> • Easy access to young people • Can be used to create goodwill and a loyal fan base 	<ul style="list-style-type: none"> • expertise • It is often difficult to track conversion (customers taking a desired action, such as a purchase) and sales numbers • Requires the creation of unique/engaging content
Direct Mail	<ul style="list-style-type: none"> • Mailed letters, marketing flyers, postcards, and coupons • Email newsletters 	<ul style="list-style-type: none"> • Subscribers are already interested in your product and thus more likely to convert to paying customers • Keeps already interested consumers up-to-date on product news, sales, product releases • Can target market based on location, average income, and other census-derived information 	<ul style="list-style-type: none"> • Building an email list of interested customers can take time • Direct mail campaigns can be expensive • Results cannot be precisely tracked • Consumers often discard physical and digital “junk mail” without looking at it
Sales Promotions	<ul style="list-style-type: none"> • Sales • Limited-time offers • Coupons • Free samples • Rewards programs 	<ul style="list-style-type: none"> • Incentivizes buying and encourages consumers to take action • Appeals to consumers’ desire to “get a deal” • A good way to attract new and reluctant buyers 	<ul style="list-style-type: none"> • Reduces profits in exchange for promotion • The promise of future sales and discounts can discourage regular buying
Personal Selling	<ul style="list-style-type: none"> • Sales meetings between a salesperson and a potential 	<ul style="list-style-type: none"> • Personalizes the relationship between the business and the customer • Effective salespeople can convert reluctant parties 	<ul style="list-style-type: none"> • Can be resource intensive • Requires salespeople who are well-trained and effective • Consumers are turned off by sales tactics they perceive as aggressive

Advantages and Disadvantages of Promotion Types

Promotion Type	Examples	Advantages	Disadvantages
	customer	into paying customers <ul style="list-style-type: none"> • Salespeople can customize purchase options for each buyer 	<ul style="list-style-type: none"> • Requires constant lead generation

Table 8.2

Price

One of the most important and challenging elements of the marketing mix is pricing. **Price** is the value that must be exchanged for a customer to receive a product or service. This is usually monetary and has a direct impact on sales. Many entrepreneurs are intimidated by financials and the prospect of using statements and other information to make projections (you will learn about these in [Entrepreneurial Finance and Accounting](#)). Correctly pricing your product enables your company to be competitive while maximizing your product's profit potential.

Here are several methods that entrepreneurs can use to effectively price products:

Cost-led pricing is the easiest way to price a product. This involves taking the cost of making the product and creating a **profit margin**, which is how much profit your business stands to make after costs have been deducted. For example, if you add the direct costs for materials and labor to the indirect costs of salaries, marketing, rent, and utilities, you determine that your product costs \$5 to make. Adding, say, a 30 percent profit margin would give you a sales price of \$6.50. The percentage added depends on the business's goals. This type of pricing is helpful when start-ups do not have much information about their target market and need more time to define their value proposition and business identity.

Another way to price a product or service is to consider what the competition is charging and determine whether to go above, below, or match their prices. If going above, or using **premium pricing** (also called perceived value pricing), you need a clear reason why customers would want to spend more on your product. While using **penetration pricing**, or pricing below competitors, can give you a competitive advantage, it may also lead to "price wars" in which competitors keep dropping prices in an attempt to beat each other. Obviously, the disadvantage is diminished profits for all. While pricing the same as your competitors seems like a logical choice, if your product offers no added value, this strategy is unlikely to entice customers to switch to your brand.

LINK TO LEARNING

Warby Parker is an example of a company that prices its eyeglasses below competition prices. Dave

Gilboa and Neil Blumenthal started the online company in 2008 with the intention of providing attractive and trendy \$95 eyeglasses for everyone. This was a departure from competition, which usually priced eyeglasses at hundreds of dollars. Listen to the [interview with Warby Parker founders Dave Gilboa and Neil Blumenthal \(https://openstax.org/l/52WarbyParker\)](https://openstax.org/l/52WarbyParker) to learn more about their venture and its pricing strategy.

Customer-led pricing is just as described: pricing led by the customer. You ask what the consumer is willing to pay and charge that. You can find this by doing research and asking customers what they would be willing to pay for a product. Many technology products are priced that way. Companies survey customers about what they are willing to pay, and they create products that deliver the value at the market price.

Loss leader pricing uses a below-standard price to attract business in the hope that customers will stay and shop for other, more profitable products. It is called a loss leader because companies lose money on the lower-priced product. Grocery store ads usually contain several loss leaders that are designed to lure you into their store in the hopes that you do the rest of your food shopping there.

Introductory offers use lower initial prices to attract new customers and build a customer base before prices return to “normal.” This method is a form of penetration pricing, as its goal is to help new products penetrate markets with established competitors and brands. Many subscription-based products such as gyms are introduced this way to gain market share and revenue.

In contrast, **skimming** is a pricing strategy that leverages the newness of a product to justify the highest price possible in order to “skim” the most profits off the top, meaning in the first phase of sales. As time passes, the price is lowered to accommodate for more price-sensitive customers. Apple often introduces its products with this particular method, charging the highest price for them until it has exhausted the market willing to buy at that price and when newer and more technologically advanced products are introduced. Then, Apple slowly lowers its pricing.

In **bundling**, a discount price is set for a bundle of products to encourage customers to buy in bulk. While they pay more than if they were buying just one good or service, they do so because the overall price for a bundle reduces the individual price of that product, giving them a better deal than if they were to purchase items separately. An example of this strategy is used by DirectTV, which bundles its phone, Internet, and satellite services for a monthly fee. If a customer were to purchase these services separately, they would be more expensive. The benefits of bundling include gaining more revenue per customer, as they would not have paid for some services separately, and making the order-taking task simpler. Take fast-food chains, for example. Instead of asking the customer to list everything separately from the menu, they give you the name or number of the bundle. They make more profit by including the drink and sides to the main entrée, and the customer saves money and time ordering.

The **odd numbers strategy** is a psychological pricing strategy often used in conjunction with other pricing methods to make a product’s price point more attractive to consumers. Using odd numbers takes advantage of the idea that such numbers have a positive psychological effect on customers. For example, instead of pricing something at \$20, the price would be set at \$19.99, which consumers perceive as closer to 19 than 20.

LINK TO LEARNING

Explore the [five strategies of psychological pricing \(https://openstax.org/l/52PsyncPrice\)](https://openstax.org/l/52PsyncPrice) in an article published in *Entrepreneur* magazine.

While pricing must be established when starting a new business, pricing strategies should be reviewed on an ongoing basis. These occasions in particular merit consideration:

- When adding a new product or service to your offerings
- When demand shifts (due to market, consumer, or other factors)
- When entering a new market
- When competitors are making changes
- When your costs are changing
- When adjusting products/services or strategies

Place

Place refers to the channels or locations—physical or digital—where customers can purchase your products; it is sometimes called *distribution*. For the entrepreneur, the choice of place lies in figuring out which channels will create the most profit. In other words, which channels will reach the majority of the target market at the most efficient cost. Choosing the right distribution channels is one way to create a competitive advantage and generate more success for your business. Certain channels have specific capabilities such as reaching more customers, providing promotions, and providing credit.

As [Figure 8.4](#) shows, distribution channels fall into two main groups: direct and indirect. Direct channels, such as physical or online storefronts, require no intermediaries and allow you to sell directly to consumers. For example, if you own a bakery, you would likely have a retail storefront that sells directly to consumers.

Indirect channels require intermediaries such as distributors or sales agents to sell your products to the end customer or to other physical or online retail outlets. Indirect channels often have more than one intermediary. For example, to acquire more customers than you could reach on your own, your bakery would use indirect channels such as wholesalers or agents to get your products into local markets and grocery stores across the country. These companies would also help with logistics, which include transportation, warehousing, and handling of products.

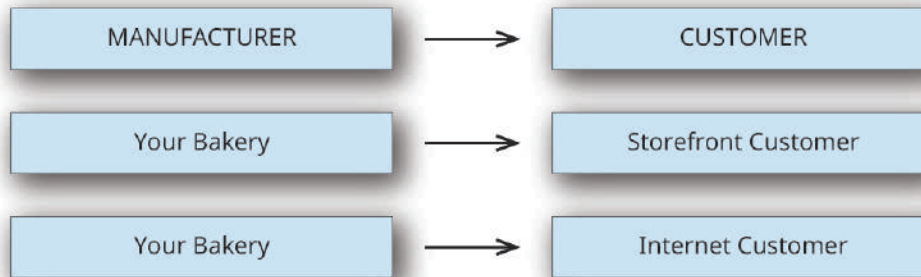
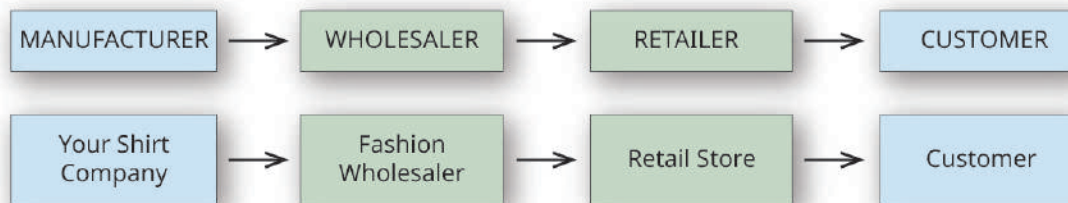
DIRECT CHANNEL**INDIRECT CHANNEL****INDIRECT CHANNEL**

Figure 8.4 The “P” of “Place” may include distribution through direct or indirect channels. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Taking advantage of multiple distribution channels is one strategy companies use to expand their brand and grow their profits. This can include having a physical storefront, developing an e-commerce website to sell goods online, and distributing goods through wholesalers and retailers. Including multiple touchpoints with the customer can increase the likelihood that they will choose your product.

The longer your distribution channels, the longer it takes for your product to reach the end consumer, and the less control you have over the product and the price. As an entrepreneur, you must decide which channels best fit your product and pricing requirements.

Additional Ps for Services

As you have learned, products include services as well. These include legal, accounting, consulting, medical, entertainment, advertising, banking, and other professional services. When providing services, three additional Ps should be considered in the marketing mix.

People

People, or a company's human resources, will always be a key factor in any successful business. In a service-oriented business, the people who interact with customers are especially important. Because the service is the product, they are the face of the brand and a direct link between the company and the customer.

When an employee delivers an acceptable or outstanding service, customers are encouraged to return to purchase the service again and also share their positive experience with others. When customers go into a jewelry store and receive good service from the salespeople, they will likely let their friends and family know about the positive experience through a personal referral or on social media.

When service is poor, customers don't return. If customers have a bad experience at a restaurant, it is likely they will not patronize the establishment any longer and will probably share a negative review online. Sometimes, poor service has to do with factors other than employees, but as online review sites such as Yelp become more common, poor customer service reviews can have a crippling effect on a brand, especially for start-ups trying to break into a market. It is important to hire experienced people and have a good training system in place with rewards that will help employees deliver the best service to customers. Companies should take into consideration that no matter the size of a business, they must market not only to their customers but also to their employees, as they are the face of the company and the ones who interact with customers. Employees can make or break the brand.

Physical Environment

The **physical environment** where a service is provided is an important part of the marketing mix. It can influence the company's image and convey a lot of information about the quality of a product, service, company, or brand. The old adage that you "get only one chance to make a first impression" is especially true for new businesses. Tangible cues—décor, smell, music, temperature, colors—send an immediate message to customers about quality and professionalism.

For example, if you walked into two dentists' offices (remember, they are also entrepreneurs), and one office smelled and looked clean, and one did not, which one would you choose? The same goes for restaurants, retail stores, and any other physical environment. Since a service cannot be inspected before it is received, these cues help customers make their decisions.

Process

Process is the chain of procedures or activities required to provide a service to the customer. It is all of the activities that take place between the service provider and the customer, from beginning to end.

In the case of a doctor's office, this would include making the appointment, filling out paperwork, waiting to be seen, seeing the doctor, and paying. Because processes can be long and involved, they need to be designed to flow as efficiently and logically as possible. In the case of services that are provided online, process includes the website's design and functionality, and all of the steps customers take from browsing through check out. A strong website design helps the entrepreneur say what the company is about, what it does and for whom, and what actions the customer can take. Actions can range from clicking for more information, the ability to purchase a product, or checking whether there is availability for a service and being able to book it or make an appointment. An example of a great website is [Airbnb's website \(https://openstax.org/l/52AirBnb\)](https://openstax.org/l/52AirBnb) whose design is focused, inspiring, and to the point. What do you think is its main call to action?

ARE YOU READY?

Determining the Marketing Mix

Imagine that you are opening a new yoga studio in a local area. Based on your research, you found that certain styles of yoga are not taught by local studios but are increasingly being sought by women aged twenty-five years and older. Your task is to create a marketing mix that focuses on this market and has a clear competitive advantage over other studios. Develop a marketing mix that includes all 7Ps and define them as they relate to your business.

8.2 Market Research, Market Opportunity Recognition, and Target Market

Learning Objectives

By the end of this section, you will be able to:

- Distinguish between primary and secondary market research
- Define a research goal and the importance of research design
- Understand how to choose a sample, and collect and analyze data
- Identify common sources for secondary market research
- Understand how to identify the target market within the total available market and serviceable available market

Now you know the components of the marketing mix. But, as an entrepreneur, before you can make decisions about them, you need to roll up your sleeves and do some research. This type of research is similar to the concepts covered in [Identifying Entrepreneurial Opportunity](#); however, that research focused on whether an entrepreneur has what is needed to move forward with an idea. This research is more market focused, and it's done after the entrepreneur has decided to move forward and start the enterprise or launch the product. Essentially it is about the product, not the entrepreneur's readiness.

Market research is essential during the planning phases of any start-up; otherwise, you're shooting in the dark. On a basic level, **market research** is the collection and analysis of data related to a business's target market. Market research can entail everything from information on competitors' products to the interpretation of demographic data related to potential customers.

The main purpose of market research is to gain an understanding of customer needs and wants in an effort to reveal potential business opportunities. When you have a clear picture of what your target market is and what it wants, you can more effectively design your marketing mix to engage that demographic.

Imagine that you are creating a cosmetic line that is organic, contains vitamins and minerals, and is easy to apply. Your target market is women who are interested in high-quality beauty products that are not harmful to themselves or the environment. But after conducting extensive market research, you learn that women aged eighteen to forty-five years tend to be interested in the benefits your product line provides, but that women over fifty years of age are not. In light of these findings, you can either adjust your line's benefits to serve the market you initially wanted to serve (all women), or you can cater to the needs of a smaller audience (eighteen

to forty-five-year-old women).

A good exercise for better understanding your target market is to detail the everyday life of your ideal customer. You can do this by describing in detail a set of possible customers who would buy your product. Details could include demographic information such as gender, age, income, education, ethnicity, social class, location, and life cycle. Other information that would be helpful would include psychographics (activities, hobbies, interests, and lifestyles) as well as behavior (how often they use a product or how they feel about it). The better you know your ideal customer, the better you can focus on capturing their attention by matching their preferences with your offerings.

Market research also helps you understand who your competitors are and how they serve the target market you want to engage. The more you know about your competition, the easier it will be to determine and differentiate your offerings. Let's dive into how marketers gather all of these data and the value the data provide to entrepreneurs.

Primary Market Research

Primary research entails collecting new data for the purpose of answering a specific question or set of questions. While conducting your own research can be resource intense, it is also the best way to get answers specific to your business and products, especially if you want to penetrate niche markets that have not been studied. It also allows you to get specific. By asking the right questions, you can determine people's feelings and attitudes toward your brand, whether they like your product design, whether they value its proposed benefits, and whether they think it is priced fairly. [Figure 8.5](#) shows the steps common in conducting primary market research.

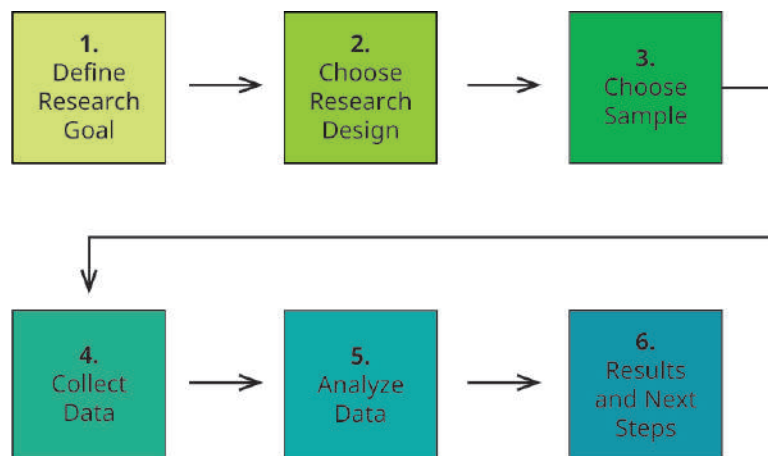


Figure 8.5 There are six steps in primary market research. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Define the Research Goal

You should start by defining the goal of your research project. What are you trying to find out? Do you want to know more about your target market, their preferences, lifestyle choices, and culture, or do you want to know more about your competitors and why your target market buys from them? What are your criteria for validation of the research goal or goals?

The more time you take to clarify your research questions, the more likely you will be to achieve your research

goals. If you can't figure out exactly what you're looking for, that's okay. Exploratory research using a focus group can help you decide what kind of research questions to ask. A **focus group** is a gathering of people, typically six to twelve participants, who come together to discuss a topic presented by a moderator, who usually poses questions and collects qualitative data that can be used to answer questions or define research further.

For example, a manufacturer of water bottles might know there is a problem with their products as sales have been declining over time. The company doesn't know exactly why or where to start, so it would use a focus group to better define the research goal or problem. Using focus groups, they might find out that they are targeting the wrong segment or that there is a need for better water bottle designs. Talking to the focus group can uncover possible research questions to undertake.

Merkadoteknia Research and Consulting is a Hispanic-owned company that conducts research for different industries that cater to Hispanic consumers. This company helps fast-food companies, retailers, and pharmaceutical companies, among others, conduct focus groups and gather insights about specific groups of people that may have different cultural backgrounds. These companies may not know exactly how to start researching their target market, so they use Merkadoteknia Research and Consulting to learn more through the use of focus groups. This approach helps better define the research goal or problem.

Determine Research Design

The next step is to determine which research techniques will most effectively help you answer your questions. Considering what you want to learn and determining what your budget is will help you decide if qualitative or quantitative research best suits your needs. Well-designed research projects often use some combination of both.

Qualitative research uses open-ended techniques such as observation, focus groups, and interviews to gain an understanding of customers' basic reasons, opinions, and motivations. Simply observing potential customers, whether at a store or in daily activities, and noting their behaviors are a simple, effective form of ethnographic research that can help you better understand the lifestyles and habits of potential customers.

Ethnographic research includes the personal observations of the subject by being immersed in the subject's environment. Research like this helps companies see how people use their product over the course of a day.

For example, if you manufactured a water bottle and wanted to design a "better" water bottle, you could watch how people use their water bottles while working, exercising, during their commute, and so on to better understand their needs and habits. This "ethnographic" research can often uncover latent, or unstated, needs that you can use to build your concept. Unstated needs refer to those that are expected from a company, such as a certain level of quality or good customer service. These are default expectations that a customer has based on their experience with products in general.

Employing a mystery shopper, or pretending to be one yourself, is another way to learn how customers and employees act within a specific retail environment. A mystery shopper is a person who has been hired by the company or a third party to pose as a real shopper and has gone undercover with a specific goal of testing certain aspects of a business. This can take the form of purchasing a product, browsing and asking questions of an employee, interacting with other customers, or simply observing what is happening inside the store. After the experience, this person will provide feedback to the company.

Focus groups and one-on-one interviews can be useful to obtain more thoughtful answers and explore debatable topics. Both are good methods for digging deeper into the specific motivations and concerns of

people, especially as they pertain to personal, privately held beliefs. This research is useful when trying to develop a more novel product, but you must do your best to eliminate “support bias” in that the panelists might seem favorable to new concepts to please or accommodate the moderator. For one-on-one interviews, it is important to develop a thorough interview or discussion guide, so other team members can also conduct the interviews. By doing this, you will ensure a consistent approach to asking key questions and documenting responses to help guide the next step of the development of your product.

Quantitative research focuses on the generation of numerical data that can be turned into usable statistics. This kind of research most often takes the form of surveys or questionnaires that pose multiple-choice questions with predefined answers. While these surveys do not allow for much free expression on the part of the participant, the focused nature of the answers means marketers can identify trends, such as which social media platforms are preferred by customers or potential customers. For example, the researcher may very well find that Instagram is the most used social media app because of its ease of use and its ability to incite emotional responses to pictures.

Sample survey questions can be anything from “How many times have you gone to the corner store this week?” to “Which age range do you belong in?” This kind of approach is an efficient way to collect a lot of data because once the survey is written, it can be distributed in person or online to as many participants as you like. Typically, the more people you survey, the more accurately your data will reflect the demographic you are examining.

Another way to generate quantitative results is through **causal research** and test marketing. In both cases, you present participants with a cause and record the effect. An example of this might be a taste test in which people’s reactions to and preferences for different juice flavors are recorded. Given the limited resources of many start-ups, test marketing is a great way to make sure your product works before you start investing in its distribution.

An even more sophisticated—and expensive—method is **conjoint analysis**, in which respondents must rank, choose, or rate a number of “conjoint,” or linked, features or benefits. This real-life scenario approach will give you very useful results from potential buyers, often with features or benefits ranked relative to perceived value or importance.

For instance, let’s say your company is trying to create a reusable water bottle to compete in a crowded marketplace. If you were to use conjoint analysis, you would create a survey that lists the water bottle attributes and prices to show consumers different choices. For example, customers could be given a set of very similar water bottles, each with a set of features the company would like to test. Features can include a locking lid so the water doesn’t leak, different bottle shapes for easier hold and water retrieval, and different colors and sizes. Each of the choices could have its own price point and the customer can choose, rank, or rate each of the choices based on those attributes and prices. Each of the choices could be described on a survey with words or pictures, and it would ask customers to choose their favorite or rank all of the choices. After collecting information and data from many consumers, researchers would use statistical analysis by applying linear regression (a predictive tool that measures the causality of one marketing variable on another) or other techniques to determine which attributes of a water bottle are more important to the customer and what price they would be willing to pay. Based on this knowledge, the company would create a product that could possibly beat the competition.

Choose a Sample

Next, researchers need to determine the sampling method. In terms of research, your **sample** refers to who you will survey and how many people you will include. In most cases, you will want a sample that reflects your target market, especially if you are trying to figure out your ideal customer's interests and how to get them to buy your product. Untargeted samples can be useful when trying to figure out who your target market might be, but they aren't an efficient way to get to know your ideal customer.

Generally speaking, larger samples provide more accurate data, although researchers should not feel like they need to survey everyone in a market. For example, if you have a list of 5,000 contacts, you might choose to contact 500 people who would be representative of the total group of contacts. Surveying all of your population could be time consuming and expensive, so choosing a subset of the right people can yield good results. The sample must be large enough to be statistically significant, meaning that the relationship between variables is not a result of chance. The sample can then show the researcher an accurate depiction of a specific phenomenon.

For example, you can test whether men and women actually have different or similar tastes in water bottle attributes. In this case, the significance rests on the gender of the potential customer. If your sample is large enough (say 500 out of 5,000), and you find that men look for different attributes than women do, it is unlikely that the differences found were by chance. The cause of the differences would be the gender.

Therefore, keep in mind that errors of reliability and validity can arise if your sample is not thoughtfully selected. Statistical significance is then important in measuring reliability because it means that there is an actual difference in what is being measured. If there is a difference between men's and women's responses in our water bottle example, checking the significance will determine whether the differences really matter or if they are due to chance. Significance is measured by looking at the probability value, or *P* value, of the result. If it is 5 percent or less, it is usually considered a significant difference that is not due to chance, and the researcher can determine that the answers are indeed different between the two genders. Validity, on the other hand, means that the item that is being measured is relevant to the research. This means that the questions that are being asked will actually answer your research objective.

While random samples can be useful for some types of research projects, many researchers intentionally choose their sample participants based on economic and ethnographic factors to make sure they accurately reflect the nature of the demographic they seek to understand.

Collect Data

Once you've identified your research goals, chosen your design, and determined your sample, you are ready to start collecting data. The data may be collected through observation and taking notes. For example, if you are trying to figure out if your store layout is yielding the most productive sales, you can observe traffic flow and note what people look at and what they actually purchase. Then, you may change the merchandise layout, or the aisle size or space, to see whether people peruse other merchandise that they hadn't seen before. Based on your observations and sales data, you can determine the best flow for your floor.

Interviews can also help secure open-ended answers. You might interview potential customers on what they think is the best way to communicate with them and what they like about certain competitors' products. This can help you obtain additional options that you may not have thought to add on a survey, which is another way to get aggregate data.

Surveys can be done by hand or through online tools such as Survey Monkey or Qualtrics. Surveys are very

helpful because you can ask question to current or potential customers about your product, competitors' products, customer service, and any other information you may seek to create or improve your business. They are an easy way to collect large amounts of data from many customers, and they allow you to calculate responses. Online tools are particularly useful in providing repositories of data that can be later exported to other analytical tools such as Excel or SPSS.

Regardless of what research technique you use, be on the lookout for data collection errors. Recording the wrong answers, failing to convey the right instructions to participants, or having to translate on the fly can all create biases that skew the answers and give you inaccurate results.

Analyze Data

Once you collect your data, the next step is to make sense of it. How you analyze the data depends largely on what you want to get out of it. Typically, you will be looking for patterns and trends among the answers. Data analysis is a field unto itself, and when complex analysis is required, seeking the assistance of experts is often worth the extra cost. You can find experts within research marketing firms that specialize in collecting and analyzing data for businesses, such as Merkadoteknia Research and Consulting. These can be found online or through local business organizations, such as chambers of commerce.

Results and Next Steps

At this stage, the entrepreneur seeks to reconcile the results of his or her examination with the goals of their research. For example, if you were doing exploratory research about a potential product you wanted to bring to market, now would be the time to ask questions such as whether the research suggests market potential. Similarly, if the goal was to figure out what customers like about competing products, now would be the time to list those results and determine whether they are worth incorporating into your product. Regardless, it is important to be open to what the data say, even if they indicates results that are contrary to what you were hoping for. Research should be an opportunity for growth and a roadmap for the refinement of your idea.

Secondary Market Research

Secondary research is research that uses existing data that has been collected by another entity. Oftentimes, these data are collected by governmental agencies to answer a wide range of questions or issues that are common to many organizations and people. Secondary research often answers more general questions that an entrepreneur may have, such as population information, average purchases, or trends. If there is a specific question that cannot be answered, such as how many people would be interested in a new product with certain attributes, then primary research will have to answer that. While some of this kind of research must be purchased, much of it is free to the public and a good option for entrepreneurs with limited financial resources. Some commonly used sources for free data include the US Census Bureau, Fact Finder, Pew Research Center, Current Population Survey, the Small Business Administration (SBA), and the Texas State Data Center.

Other useful resources are trade organizations that provide information about specific industries, as well as newspapers, magazines, journals, chambers of commerce, and other organizations that collect local, state, national, and international data. Resources such as these can provide information about everything from population size to community demographics and spending habits. [Table 8.3](#) lists several free databases that are rich sources of information.

Databases for Secondary Research

Database	Information	URL Address
Census Bureau	Economic, demographic, geographic, and social data	https://www.census.gov/
Fact Finder	Economic, population, and geographic data	https://factfinder.census.gov/
American Community Survey	Updated census data	https://www.census.gov/programs-surveys/acs/
Pew Research Center	Fact tank that surveys trends, issues, attitudes, and demographics	http://www.pewresearch.org
Pew Hispanic Center	Surveys on Hispanic trends, demographics, and issues	http://www.pewhispanic.org/
Current Population Survey	Monthly survey of US households on labor data	http://www.bls.gov/cps/home.htm
Texas State Data Center	State demographic data	http://txsdc.utsa.edu/
IBISWorld	US industry trends	http://www.ibisworld.com
Mergent Online	US businesses data	http://www.mergentonline.com/
Demographics Now	US demographic and business data	http://www.demographicsnow.com/

Table 8.3

While free sources can provide a lot of information, their research tends to be less specific than that by sources that charge for their data. Companies such as Nielsen/Arbitron, Simmons, and Geoscape can provide more detailed information about specific behaviors on media use, lifestyle choices, specific product consumption, geographic segmentation data, and others. [Table 8.4](#) lists some sources for this research.

Syndicated Sites for Secondary Research

Site	Information	URL Address
Nielsen PRIZM	Geodemographic segmenting	https://segmentationsolutionsdev.nielsen.com/mybestsegments/Default.jsp?ID=20&pageName=ZIP%2BCode%2BLookup
Nielsen TV ratings	TV ratings, media, research	http://www.nielsen.com/us/en/insights.html

Table 8.4

Syndicated Sites for Secondary Research

Site	Information	URL Address
Nielsen Audio	Audio ratings, media, and research	http://www.nielsen.com/us/en/solutions/capabilities/audio.html
Experian Simmons	Consumer research, trends, and insights	http://www.experian.com/
Scarborough	Consumer research, trends, and insights	http://www.scarborough.com/
Geoscape	Multicultural consumer research	http://geoscape.com/

Table 8.4

In the end, there is no perfect way to conduct research. It all depends on what you are trying to find out and what the best approach is to do that. If you are just starting out, you may want to maximize secondary research because it is free. You can also try primary data collection by speaking to friends, family, and others you encounter in your local and online communities. If you are working at a university, you will likely have access to free market research reports (marketresearch.com, Frost & Sullivan, etc.).

ARE YOU READY?

Researching Your Market

Pretend you are an entrepreneur who would like to create a new, educational toy for toddlers to develop their motor skills that uses figures, shapes, or blocks. While in college, you worked in the children's section at a well-known retailer. From this experience, you learned that there might be a need for educational toys within the market that isn't being addressed, but you aren't exactly sure how to exploit it.

- Using the market research process, develop a research plan that will help you determine the viability of your idea.

Market Opportunity Recognition and Validation

One common goal of market research, which has been mentioned earlier in other chapters, especially the [Identifying Entrepreneurial Opportunity](#) chapter, is the identification of a **market opportunity**, or an unmet need within a target demographic that might be fulfilled by an existing or new product. Looking for gaps or unmet needs within a marketplace is one way to identify market opportunities for both goods and services. For new products, this entails looking at the needs of a demographic, identifying which of those are not being met, and determining what kind of product could fulfill it. Based on our earlier discussion on secondary

research, there are many places where data can be found online or offline to determine these needs.

Similarly, you might identify common local, national, or global problems through observation and directly interacting with potential customers, and try to create services that would solve them. Social, economic, technological, and regulatory changes all have the potential to create market opportunities.

When inventor David Dodgen saw the suffering that Hurricane Katrina had left behind, he saw an unmet need that this event had created. By witnessing the disasters, he realized that when hurricanes or other disastrous events strike, they can contaminate the water supply in a region or city, or prevent access to clean water. As a result, he created the AquaPodkit, a plastic container that can temporarily store fresh water for weeks at a time in the event of an emergency. The Federal Emergency Management Agency (FEMA) recommends that people fill their tub if they feel that there may be a chance that water will be scarce. Oftentimes, tubs can be dirty, and people may not have the time to clean them. With this in mind, Dodgen developed a plastic lining, or bathtub bladder, which is manufactured in the United States and is safe to drink from, together with a pump that helps seal and open the plastic when the water is needed. This kit can hold up to 100 gallons of fresh water in the tub and has proven successful; it has also been featured by CNBC, *Entrepreneur*, and the *New York Times*.

LINK TO LEARNING

View this [video about the AquaPodkit \(https://openstax.org/l/52AquaPod\)](https://openstax.org/l/52AquaPod) to learn more. Dodgen also created [smaller bags and pumps \(https://openstax.org/l/52BagsPumps\)](https://openstax.org/l/52BagsPumps) that can be stored anywhere, not just in the tub.

WHAT CAN YOU DO?

Climate Change

Background: Earth's climate change is a topic of discussion with great importance these days. For many hundreds of thousands of years, Earth's temperature changes were attributed to tilts on its axis that allowed for more or less energy to enter our atmosphere. Recently, Earth's climate has experienced a dramatic increase in temperature, and most scientists around the world agree that it is attributed to human activities that emit carbon dioxide into the atmosphere.

Greenhouse emissions have increased the temperature of Earth to the point that glaciers in Antarctica and Greenland are now disappearing ten times faster than on a normal ice age recovery session, not to mention the many weather catastrophes that are seen around the world.^[9] These changes in temperature have caused ice sheets to melt, snow caps to retreat, oceans to warm and become more acidic, water levels to rise, and severe weather to increase.

As harmful as it sounds, there is still time to change the negative effects of global warming. This can present some opportunities for social entrepreneurs who care about Earth's environment and business.

Your task: As a social entrepreneur, determine one or two opportunities for a business you could develop

9 National Atmospheric and Space Agency (NASA). "Climate Change: How Do We Know?" n.d. <https://climate.nasa.gov/evidence/>

and test for market validity.

- What kind of opportunities are there to create positive change?
- How can you validate your assumptions?
- How would you test unmet needs?
- What kind of research would you conduct? Why?

Sometimes unmet needs are not uncovered immediately. One way to better understand a market's opportunities is to conduct a **market analysis**, which is an analysis of the overall interest in the product or service within the industry by its target market to determine its viability and profit potential. **Validation**, not to be confused with *validity*, is the act of verifying that a specific product is needed in a target market. This can be done by conducting formal or informal interviews or surveys with potential customers to gather their feedback. Dropbox is an example of a company that conducted validation over and over until they created a product that could work with a mainstream audience (see [Launching the Imperfect Business: Lean Startup](#)).

In addition to identifying competition and determining growth and profit potential, a good market analysis will identify the **total available market (TAM)** for a specific product, which is the total perceived demand for a product or service within the marketplace. It will also identify the **serviceable available market (SAM)**, which is the portion of the market that your business can serve based on your products, services, and location ([Figure 8.6](#)).

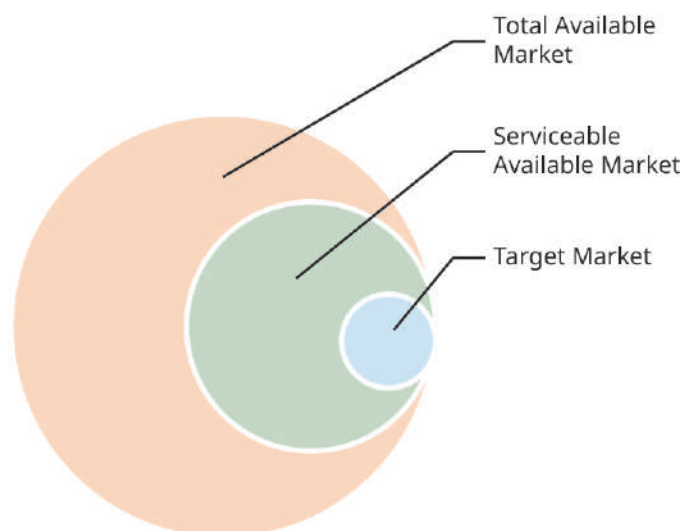


Figure 8.6 Entrepreneurs must focus on the target market within the TAM and the SAM and allocate resources to attract customers who can be satisfied by the value proposition. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

To calculate this, let's go to our water bottle example. Let's say that you are trying to figure out what your target market is based on this concept. To calculate the TAM, you would look at the whole industry and determine the total number of customers available for water bottles or total revenue available. To find the number, you can look up the industry numbers for the category on databases such as IBISWorld, mentioned earlier, or any other data available through the World Bank or World Factbook to see the potential number of customers or revenue. This is called the top-down approach, as you are looking at macroeconomic factors to determine an industry's potential.

Another way to calculate the TAM would be by using the bottom-up approach, which involves counting local market sizes and figuring out the competitors' number of customers. After collecting this information, then all the local markets would be added up and multiplied by the average amount they spend on the product per year. Since your company cannot service all markets, the next step is to figure out the SAM. You could estimate the number of customers you can service by splitting the market into those you can service given your product characteristics and geographic, demographic, and cultural factors, among others.

Finally, considering the constraints of the company and strength of the competition, you would determine your focused target market to avoid wasting valuable resources marketing to people who are generally not interested in buying your product.

As an entrepreneur, you want to segment the market and figure out if there are possible pockets of people that you can serve. Segmenting, targeting, and positioning (STP) will help you figure out who is your best customer and will allow you to allocate your resources so that you can more effectively serve that customer. Let's look at these processes now.

Segmenting means that you separate the total population by homogeneous groups of people that have similar tastes, backgrounds, lifestyles, demographics, and even culture. You may segment along lines such as age ranges, gender, ethnicity, line of work, earnings, or activities. There are many ways to separate these groups to choose the right one for your business.

The next step is **targeting**. You select a target based on their ability and willingness to buy. As stated earlier, a target market serves to specify which group of the total market you will serve and how you will position yourself to distinguish your company or product from your competitor.

Positioning (value proposition) is a statement of how you want the customer to perceive your company, good, or service. For example, ModCloth is an online indie retailer that sells vintage, or vintage-looking, trendy, fun clothing that appeals to the global consumer who wants to be stylish. Another example is Wag! which positions itself as the app that lets the pet owner look for a walker on demand. Kind of like the Uber for dogs who want a walk when their owners can't take them!

ENTREPRENEUR IN ACTION

Wag! Dog-Walking App



Figure 8.7 The Wag! app allows busy people to choose from prescreened dog walkers so their furry friends will be well-taken care of while they're at work. (credit: modification of "A woman with her dog@Takayama" by JAR/Wikimedia Commons, CC BY 2.0)

As a dog owner, Wag! CEO and co-founder Joshua Viner struggled to find the time to walk his beloved dog after a long day at work. He knew it was unfair to keep her cooped up all day. He even considered finding her a new home. This canine conundrum led him to create Wag! in 2015 as a way to help people like him who loved their dogs but didn't always have the time to make sure they were properly exercised.

To start, Viner got together with Jason Meltzer, who, like himself, had experience creating consumer tech companies. Meltzer was the founder of pet services company Surfdog LA, which already had a proven track record of success. Together, they developed an app and website with the goal of making dog ownership easy and guilt free. Wag! gave customers access to trusted, prescreened walkers who could take their dogs out on short notice without them having to be present. Customers could even see their dog being walked via the app.

Since its inception, Wag! has been growing and entering new markets at a steady pace. After launching its service in Los Angeles and San Francisco in 2015, it continues to add cities across the United States.

Because the app's dog-walkers have access to their client's houses, one of the challenges Wag! faced was making sure customers trusted them and their dog walkers (Figure 8.7). Another challenge was the safety of the dog itself. What happens if a dog gets hurt or lost? It wouldn't take much for issues like these to turn into major problems.

- Describe the target market for this service.
- Are there other potential customers who can be a good target for this service?
- How can Viner position his business to assure pet owners that their dogs will be well taken care of?

8.3 Marketing Techniques and Tools for Entrepreneurs

Learning Objectives

By the end of this section, you will be able to:

- Describe effective entrepreneurial marketing techniques (guerilla, relationship, expeditionary, real-time, viral, digital, word-of-mouth)
- Discuss the pros and cons of these marketing techniques

One of the hardest facts for entrepreneurs to absorb when starting a new business is that financial and human resources are limited. Fortunately, there are many marketing techniques available to entrepreneurs that require little more than a good dose of “sweat equity.”

Guerilla Marketing

Coined by business writer and strategist Jay Conrad Levinson in 1984, **guerrilla marketing** refers to creative approaches to marketing that seek to gain maximum exposure through unconventional means. Guerilla marketing often means staging some sort of event or interaction that is designed to attract attention to a brand or product. The goal is to intrigue consumers by standing out from normal sales messages and the thousands of advertisements they are exposed to every day. These approaches usually have a component that encourages potential customers to interact with a company or product in a fun way.

Dennis Crowley, a serendipitous entrepreneur who taught himself to code and who was laid off by Google while working on his social networking site Dodgeball, was able to create and grow Foursquare through the use of guerrilla marketing techniques. Foursquare, the search and discover nearby businesses app, used this technique at the Austin, Texas-based South by Southwest film and music festival. The idea was to set a real game of foursquare in front of the convention hall that also raised awareness for the app (Figure 8.8). The games were an instant success and attracted thousands of participants who played all day long. If someone didn't know what the game was, a marketing team of 11 people helped them find it on their phones. Their efforts resulted in 100,000 views for the app that that day alone.^[10] All of this was achieved for the cost of a box of chalk and two rubber balls. Although the company had plenty of investments to sustain its operations, guerrilla marketing was a clever and helpful way to get users to test it and enjoy it.

10 Knowledge @Wharton. “How to Generate Buzz on Social Networks.” *Forbes*. April 23, 2010. <https://www.forbes.com/2010/04/23/foursquare-facebook-yahoo-entrepreneurs-technology-wharton.html#13e159097b2d>



Figure 8.8 Foursquare's guerilla marketing idea generated 100,000 new views for the app at the South by Southwest film and music festival in Austin, Texas. (credit: work by betsyweber/Flickr, CC BY 2.0)

Another example of guerrilla marketing that has been prominent over the last few years is flash mobs. A flash mob is a gathering of people at a public place to perform an act, be it a dance, entertainment, political stance, or some sort of artistic expression that conveys a message to the public for a brief period of time. This is organized through social media calls or emails to gather enough people to perform them. Flash mobs have been effectively used by companies to create awareness and reminders about their brands.

LINK TO LEARNING

You can watch videos of some of the [best choreographed flash mobs \(https://openstax.org/l/52FlashMob\)](https://openstax.org/l/52FlashMob) in business.

Relationship Marketing

One of the main differences between start-up companies and established brands is the need for start-ups to nurture and maintain relationships with new customers. One way to accomplish this is through **relationship marketing**, which seeks to create customer loyalty through personal interactions and long-term engagement strategies. A small company can try to have a closer relationship with clients by writing personal notes by hand or sending an email thanking them for their business, by acknowledging their presence by their first or last

name when they come into the establishment, by offering beverages, and by offering other personalized services.

An example of successful relationship marketing from a larger company comes from Moosejaw, a retailer specializing in outdoor clothing for hiking and snowboarding. At one point, a Moosejaw customer returned a piece of clothing that he had bought as a gift for his girlfriend. In his explanation for the return, he wrote, "Girlfriend dumped me." Seeing this as an opportunity to engage with a customer, the company decided to send the man a care package.

A few weeks later, the man received a surprise shipment with a note saying they were sorry his girlfriend broke up with him so they decided to give him a gift. The box contained shirts, stickers, and other goodies. There was also a card with notes from Moosejaw's employees.^[11] Moosejaw's efforts were rewarded when the situation went viral on social media, which generated more exposure and support for the company.

Another way companies maintain relationships with their customers is through regular email newsletters. By using sales history and other market data, companies are able to customize the content of these usually free newsletters to the needs, concerns, and desires of their target market. This allows them to stay connected to their customers while developing strong connections and brand loyalty. Start-up companies can take advantage of the free and affordable options offered by such newsletter management software companies as MailChimp, Constant Contact, Mad Mimi, Marketo, Insightly, Slack, and Salesforce.

Expeditionary Marketing

One of the toughest aspects of entrepreneurship is to stay in business and grow in a highly competitive landscape. Businesses are born every day with the goal of making a name for themselves by providing better goods and services. One way that companies big and small can stay relevant is through expeditionary marketing.

Expeditionary marketing refers to strategies that are aimed at moving established companies and their products into new markets and territories. As the name implies, there is an element of risk and discovery involved in expeditionary marketing strategies as they help a company grow into new areas. Determining where and how to effectively enter these new markets often begins with an analysis of a company's current market and its financial and human resources. Entrepreneurs will choose new markets based on where those resources might be able to fulfill an unmet need. Many small businesses need to leverage their gains as they move into new waters and perhaps more competitive landscapes. Having awareness of changes can foster planning and look for new ways to expand.

This type of marketing is very similar to entrepreneurial marketing, and the terms are often used interchangeably, except that expeditionary marketing involves existing companies continuing to innovate whereas entrepreneurial marketing also involves new companies. Companies that have succeeded in taking their businesses into new markets and consistently pivoting to create new products for current and new markets can be thought of as entrepreneurial companies. Big companies such as Apple, Google, and Dropbox [Launch for Growth to Success](#) have consistently developed products and entered new markets to keep abreast of the competition. Companies that did this while small like Birchbox (see [Introduction](#)) also use this method to grow and fight off competitors.

11 Joshua Kraus. "The Dos and Don'ts of Relationship Marketing." *Sitepoint*. April 16, 2015. <https://www.sitepoint.com/relationship-marketing-examples/>

Real-Time Marketing

Real-time marketing attempts to turn immediately available sales data (often collected from social media, websites, point-of-sale systems, and the like) into actionable and timely strategies that target the shifting landscape of consumer tastes and trends. Some of the tools entrepreneurs can use to secure information include analytics from Facebook, Twitter, and Google, as well as internal sales data. The information can include preferences for one brand over another, lifestyles, behavior, purchase frequency, and dollar amount spent. This helps entrepreneurs set up strategies that focus on providing the customer what it needs in today's instant gratification society.

For example, a company such as Birchbox creates a post on Facebook or Twitter regarding a new promotion. It can then confirm the number of “clicks” the post gets and determine the depth of engagement for each of the posts. Clicks can be likes, shares, comments, and purchases that can be tracked immediately, minute by minute, hour by hour, or day by day, depending on the length of the promotion. Real time allows the marketer to assess the action followers take immediately after this happens. Success will depend on the goal that was set by the company. For example, if for one of their promotions, Birchbox expects 1,000 likes, 100 shares, and 30 conversions or purchases per day, it will be very easy to track whether the company is accomplishing its goal just by looking at the results every hour. This makes it very easy to gauge and to change. If a post is not getting the desired results in likes, shares, comments, or conversions in the desired timeframe, then the company can make changes to the communication sent to provide a different incentive, such as providing a deeper discount, or using different language, a new picture, and a better call to action. In addition, real-time tracking also allows for the company to answer tweets and comments from its followers immediately. This enables direct communication from customer to company without any interference or time constraints.

Viral Marketing

Viral marketing is a technique that uses engaging content in the hopes that viewers will share it on their personal and social media networks. Successful content then spreads like a virus, creating exponential exposure to a company's message.

The most important element of any viral marketing campaign is developing content that is not only engaging but that people also feel must be shared. Generally speaking, viral content is not “salesy” in nature; rather, it tends to be subtle about its presentation of branded items. In this way, the product or brand reaps the indirect exposure that comes with being part of content that people want to consume. A [very successful campaign that included viral marketing is the Dove Real Beauty Sketches campaign \(https://openstax.org/l/52DoveReal\)](https://openstax.org/l/52DoveReal) where a real-life forensic artist sketches women's faces based on their own descriptions and sketches them again through other people's descriptions of their faces. When these sketches were revealed to the women who were asked to participate, they saw how much kinder and more beautiful other people had described them. This video never mentioned any Dove product at all. The result of this campaign was astounding, as it had more than 140 million views worldwide, becoming the best viral video of 2013 by connecting to the customer in an emotional way that was sincere and warm. This campaign also enabled the company to track results in real time and answer comments from viewers in a timely manner, while enhancing brand awareness.^[12]

Another example of [an effective viral campaign is that of Dollar Shave Club \(https://openstax.org/l/52DollarShave\)](https://openstax.org/l/52DollarShave) which has garnered more than 26 million views on YouTube in response to the low budget and

12 Nidhi Dave. “Top 3 Viral Marketing Campaigns to Take Inspiration From.” *SEMrush*. March 9, 2018. <https://www.semrush.com/blog/viral-marketing-campaign-inspiration/>

entertaining video by the owner of the company. Founded in 2011 in California with the goal of providing low-cost razors to men every month through a membership, the company has been so successful that it has since been acquired by Unilever.

The benefit of this kind of marketing is that it can lead to massive exposure for little or no effort or investment once the content is developed. The challenge, though, is that it is difficult to predict what will be successful viral content. Viral marketers often create a lot of content that does not go viral before finding content that does.

Digital Marketing

Digital marketing refers collectively to all digital (online) marketing efforts, which can include social media, email communications, websites, blogs and vlogs, and search engine optimization (SEO). This is an important area for entrepreneurs to explore because learning how to leverage digital channels and online analytics is key to remaining competitive in this technological era.

Digital ad spending has outpaced television ad spending in recent years.^[13] Digital ads include display ads, search ads, and social media ads. These can be very successful at targeting specific people in your target market and are usually more affordable than a TV ad. They are cheaper to make and to place than TV ads, which can cost millions of dollars for production and air time to reach a wide number of people. Digital ads are important for entrepreneurs because they are an effective way to redirect traffic to their websites and gain conversions on a budget. It does not matter how big your budget is. These ads can be strategically bought to be as cost effective as possible. They can range from a few dollars to millions of dollars, depending on your resources. Display ads are those that resemble banners and showcase a product or company on a website in a noticeable way. They come in various sizes, and the entrepreneur may buy them on third-party websites or search engines that provide space for ads. These ads are usually paid using a pay-per-click model, which means that you only pay for the times that someone clicks on your ad, or you can pay for impressions, which means that you only pay for the number of times the ad appears on readers' screens.

Search ads, conversely, are those text ads you see while you are looking for something on a search engine, whether it's on your laptop, tablet, or mobile device. Google, Bing, and Yahoo! are the three biggest search engines in the United States that provide businesses the ability to create targeted ads to reach customers who are looking for something in particular. These ads are created using keywords that are strategically chosen to target people typing those specific words in the search engine and are paid through a bid system that allows the business to specify how much they will pay for an ad to be displayed in a better position on the engine's display pages. Google Ads and Google Analytics are tools that allow a digital marketer to search for popular keywords and create ads based on these terms to target the right consumer. These tools are so well designed and complex that it takes some time to get acquainted with all of their features and capabilities. Their main features, however, are to look for the right keywords, create the ad campaigns, and track their success.

Go to your favorite search engine and try to search for something ([Figure 8.9](#)). What kind of ads do you see on your screen? Someone on the other side has created these ads to connect with you. Did they do a good job?

13 Greg Sterling. "Digital Now Makes Up 51% of US Ad Spending." *MarketingLand*. September 20, 2018. <https://marketingland.com/report-digital-now-makes-up-51-of-us-ad-spending-248617>

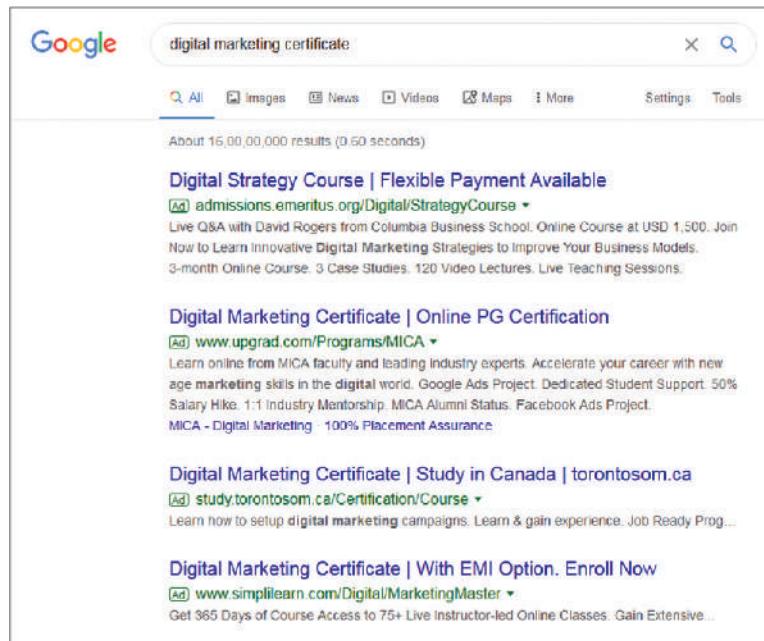


Figure 8.9 The Google Ads tool is effective for reaching targeted audiences searching online for specific products.

Social media platforms also have the capability for users to create similar ads on their systems to target people based on their behavior, likes, profiles, and searches for products online. Their popularity has increased as more people join the platforms and more information is gathered from them.

ARE YOU READY?

Solar Panels Are Hot

During the last ten years, solar panels have increased in popularity, as they are a great alternative to fossil fuels. Solar panels enable homes and organizations to transition from electricity generated from fossil fuels to clean energy. Given the current climate state and changes in the energy industry, solar panels have become an excellent way to save money on electricity over the long run, a great way to receive tax credits, an incentive to add equity to homes and buildings, and a help to the environment. The cost of installing such technology has decreased over the years thanks to the new technology available, the increase in competition, and the overall increase in demand of the product. Consumers can install the cells on their roofs at a more affordable price.

Given the recent trends and interest you have in helping the environment, you've decided to get a part-time job at a new local solar panel company. This company has a very small market share (less than 1 percent), or percentage of customers, compared to the rest of its competitors. Their goal is to increase that percentage to 2 percent of total customers by the end of the year. To reach that, they have hired you as their marketing coordinator.

As part of your job, you decide to create a plan for a promotion to reach a targeted number of people.

This promotion must be conducted online and on a budget. On your first few days on the job, you research the various types of ads that could most effectively reach the most people looking for solar panels. Once your research is over, you come back to the owner and help her decide which ads to use. Focus on the following three areas and provide your advice to the owner.

- What are the best types of ads and platforms for this type of company?
- What is the average price per ad clicked or seen?
- What are five to ten common keywords that can be used in the ads?

Blogging has become an important tool for business owners. It allows them to share information about their companies, products, and their experiences in written or video form. Blogging enables entrepreneurs to create a name for themselves, especially when the content is useful and people are interested in what the blogger has to say. Strategies that help entrepreneurs include making the time to blog, having a specific niche, choosing interesting topics that matter to the blogger and the audience, and using other branding and SEO techniques that help the blog become more visible.

Content marketing is an important topic for digital marketing, as content has become more important in recent years. Content can be displayed as a story, a blog, a website, social media posts, a newsletter, an article, videos, or anything else that has the ability to convey a message to the consumer. This is a valuable tool to distribute content that is useful, which can engage the target audience and entice them to take some sort of action. The entrepreneur must take the time to create useful content to connect with current and potential customers online. Entrepreneurs can also tap influencer marketers to disseminate information about their brands. This includes tapping into social media celebrities, who usually have millions of followers on YouTube, Facebook, Instagram, or similar platforms. This has been one of the biggest recent trends in marketing.^[14] When working with influencers, it's important that they disclose that they receive compensation for any product or service they are talking about to avoid legal risks.

Email marketing is a form of direct mail that connects to consumers in a personal way. Emails can contain useful content for consumers, promotions, and tips that entice them to try or be aware of a product. Many email marketing platforms offer services at an affordable price, including Constant Contact, Mad Mimi, Mail Chimp, and Drip. All of these platforms allow the entrepreneur to upload a list of customers or potential customers and create email marketing campaigns that are tailored to each target market. These platforms also offer useful metrics, such as open rates, click-through rates, time spent viewing the message, and conversion rates, which can measure the effectiveness of a campaign.

Word-of-Mouth Marketing

Word-of-mouth (WOM) marketing occurs when a satisfied customer tells others about their positive experience with a good or service. Although similar to viral marketing, WOM does not involve active participation from the marketer and almost exclusively involves only customers, whereas viral marketing attempts to build awareness and buzz mostly via videos or email.

When consumers are very happy with their purchases, they will let people know, whether it is in person or on social media. The company has less control over this type of marketing because it happens organically. While effective WOM marketing can have a huge impact on a brand's sales and visibility, creating WOM is

14 Sumit Gharal. "7 Reasons Why Content Marketing Is Important! Number 7 Is a Must Read!" *Digital Doughnut*. April 4, 2019. <https://www.digitaldoughnut.com/articles/2019/march/7-reasons-why-content-marketing-is-important>

tricky—people have to want to talk about your product.

One way to encourage WOM is to ask satisfied customers to help you spread the word by talking to their circle of friends and family, or by sharing comments online on the website, through portals, or through social media. Companies often include call-to-action cards in their shipments that direct customers to post reviews on their website, the website where they purchased the item (Ebay and Amazon), or on public review sites such as Yelp.

Entrepreneurs who do this need to make sure they monitor what is being said about their businesses so that poor reviews don't undermine their marketing efforts. Many of these sites allow businesses to address and resolve bad reviews, which is a good way to turn a potentially damaging situation into one that creates goodwill and positive brand recognition.

Lululemon is a yoga and athletic wear company that knows well about customer reviews. On its site, customers have the opportunity to leave comments about each of the garments regarding the size, fit, quality, and ease of use. Although the quality of Lululemon garments is high, some customers still have negative experiences and don't hesitate to share their comments on the site. The company responds with an apology for the negative experience and redirects the unsatisfied consumer to an email so they can move the conversation off the site. This allows the company to make amends with the customer and hopefully remove the negative comments if the issue can be resolved.

[Table 8.5](#) summarizes entrepreneurial marketing techniques.

Entrepreneurial Marketing Techniques

Marketing Technique	Description	Example
Guerilla marketing	Aims to gain maximum exposure through unconventional means	Events, such as flash mobs
Relationship marketing	Creates customer loyalty through personal interaction	Personalized communication to individual customer
Expeditionary marketing	Strives to move established companies and products into new markets	Pivots that create new products or attract new markets
Real-time marketing	Seeks to turn immediately available sales data into actionable and timely strategies that target the shifting landscape of consumer tastes and trends	Analyzing clicks or “likes” and modifying posts/offerings in response
Viral marketing	Uses engaging content in the hopes that viewers will share it on personal and social media networks	Subtle branding embedded in stories users want to share

Table 8.5

Entrepreneurial Marketing Techniques

Marketing Technique	Description	Example
Digital marketing	Uses online marketing strategies	Online ads and use of search engine optimization (SEO)
Word-of-mouth (WOM) marketing	Relies on satisfied customers telling others about their positive experience	Online customer reviews

Table 8.5

8.4 Entrepreneurial Branding

Learning Objectives

By the end of this section, you will be able to:

- Understand the importance of customer-focused branding
- Explain the steps in defining and developing a brand
- Describe the benefits of brand advocacy

In a business context, the word brand has multiple meanings. First, a *brand name* is the name of a product or service offered by a company. For example, Coca-Cola and Goodyear are brand names. But the **brand** also means the image a company promotes and the connotations it fosters of itself and its products. For example, the Coca-Cola brand might be seen as refreshing, youthful, and quintessentially American. The Goodyear tire brand might be seen as performance-driven, affordable, and reliable. A logo, advertising messages, public perception, celebrity endorsements, promotional strategies, and other factors all play a part in promoting a company's particular brand.

Branding is often less about a product's actual benefits or value, and more about how it positions itself within its target market and connects with its loyal customers. Establishing a brand at a company's inception is more challenging than managing a brand that has been present for many years. In the case of a start-up, the initiatives undertaken must be customer centric and should speak directly to the heart of the consumer. These must have a trustworthy and emotional appeal to create a bond with the customer. Let's delve deeper into this.

Customer-Focused Branding

The image a company conveys to its customers is managed through what is called **brand strategy**, which can include advertising, public relations, customer service, and sales promotions.

One common branding strategy is the use of **taglines**, which are short and catchy positioning statements that

quickly communicate some core aspect of the brand to the consumer. Taglines can be a powerful tool, and in some cases can become as recognizable as the brand names themselves. Consider the list of taglines from recent start-ups in [Table 8.6](#). Do they do a good job of communicating the key attributes or benefits of the brand name they are linked to?

Taglines of New Companies	
New Companies	Tagline
Hello Fresh	Simply Delicious Meals
Airbnb	Belong Anywhere
Uber	Get There
BirchBox	Open to Beautiful
Snapchat	Life Is More Fun When You Live in the Moment
LuminAID	Makers of Brilliant Things
Uptown Cheapskate	Buy. Sell. Trade.

Table 8.6

Consider the taglines shown in [Table 8.7](#). They have been around for a long time, and most customers are familiar with them. Why do you think these taglines have endured over time?

Taglines of Established Companies	
Mature Companies	Taglines That Have Endured Time
Nike	Just Do It
Apple	Think Different
Subway	Eat Fresh
Walmart	Save Money, Live Better
State Farm	Like a Good Neighbor, State Farm Is There
Master Card	There are some things money can't buy. For everything else, there is Mastercard.
Maybelline	Maybe She's Born With It, Maybe It's Maybelline.
Red Bull	Red Bull Gives You Wings

Table 8.7

Taglines of Established Companies

Mature Companies	Taglines That Have Endured Time
General Electric	Imagination at Work

Table 8.7

Consider, also, how jingles can have a powerful effect on people's recollection of a message. A **jingle** is a very short song or sound that brands a product or company and helps promote it. These tunes are very easy to remember, bold, and fun. Jingles are similar to taglines in that they feature a sound that is catchy and easy to understand by the recipient. Which jingle do you remember off the top of your head?

LINK TO LEARNING

Taglines are not just visual. They can also employ sound. Consider the "Intel Inside" riff or the three notes of NBC's network chime. Sound plays a big role in brand recognition. And jingles are sure bets that entertain as well as forge a connection to a brand. Check out this [website for a history lesson in some of the most famous radio and TV commercial jingles \(https://openstax.org/l/52Jingles\)](https://openstax.org/l/52Jingles) of all time.

Other components in a brand include the website, social media, customer service, and packaging. These are important components of a branding strategy that use technology to convey the message. A website allows a company to create an image of its business pages that are linked to each other. These pages convey branding information about a company that sends a message to the consumer through the use of the business logo, colors, copy, ease of use, product information, and e-commerce capabilities. The [LuminAID website conveys an image and at the same time has important calls to action \(https://openstax.org/l/52LuminAID\)](https://openstax.org/l/52LuminAID) and serves as an example of successful branding. This site uses colors, images, and fonts that create a specific image of modern lighting that entices customers to purchase the products and other stakeholders to give light to people who need it.

In addition to the ability of a business's website to convey the company's story, social media platforms reinforce the connection to the consumer. Social media platforms such as Facebook, Twitter, Instagram, and YouTube allow companies to invite customers to join the conversation by posting pictures of their use of products, making recommendations, participating in contests and giveaways, and obtaining coupons and other perks. Entrepreneurs have these tools at their disposal to continue creating the image of the business that perhaps got started as a brick-and-mortar business. Today, tools such as Wix, an easy, online website builder, can be used to develop this branding. Entrepreneurs with larger budgets can hire a website designer to create and help promote the site.

Customer service is another tool that can create a strong company image. Training salespeople and cashiers to be courteous, resourceful, and knowledgeable creates an image in the customer's mind about the product and the business. Wearing uniforms can also create a positive image. Customer service is particularly helpful when dealing with services because it gives some tangibility to the product that the customer cannot see. For

example, a hairstylist cannot provide a tangible depiction of how a haircut might look on a customer, but his or her demeanor, attire, and hair, can give the customer clues as to what treatment and results he or she can expect. Packaging is an important component of branding. The design of the package, the color, the information that is conveyed on the package, and the practicality of the package all create an image of what is to be expected from the product.

Method, an environmentally conscious and customer-focused brand of cleaning products, is an example of a company that distinguished itself from the competition by employing effective branding strategies. By using recycled, environmentally friendly packaging and promoting their commitment to using plant-based, nontoxic chemicals, the company was able to attract the attention of, and eventually place their products in, Target stores nationwide.

First, Method convinced Target to use their products to clean their own stores; after a successful test, they convinced the company to carry its line, which includes soaps, detergents, and cleaners ([Figure 8.10](#)). Its quirky brand message helped land the account, as Target is a progressive and innovative retailer. The brand message that Method conveyed to them was that everything inside the cleaning bottles was plant-based, and no harsh chemicals were used in creating the product. The products were either as or more effective than leading brands. In this case, the brand message conveyed the mission of the company in all of its products by integrating all the aspects together in a simple manner through the use of clear bottles, quirky fonts, and (nontoxic) colored liquid.



Figure 8.10 Method’s quirky packaging, design, and plant-based ingredients were all part of its successful brand strategy. (credit: work by Carol Bleistine/Flickr, CC BY 4.0)

The benefits of developing a good brand are several. A brand is the image of a product or service that conveys to customers who when they purchase from a particular brand, they will receive the value (quality, price, and experience) they expect. The next time they see that brand, they will choose it again because their previous expectations were met, simplifying their buying-decision process. New products must also break through crowded marketplaces and be visible to consumers who already have an attachment to other brands.

Trust in a brand can save the consumer time and may create an emotional connection to the company. However, not all benefits work for all brands and all purchase decisions. When a customer is purchasing low-commitment products and services, like cleaning products, the decision process can be quick and heuristic. When purchasing more expensive items such as electronics, vehicles, or vacations, the brand is just one of many attributes the consumer will consider.

Defining and Developing a Brand

A brand should have a clear purpose derived from the company’s mission. If the purpose is to provide plant-based cleaners that are not harmful to people, pets, or the environment, as in the case of Method, then the brand must communicate this throughout all of its interactions with its consumers. The unique selling proposition, as described in [Identifying Entrepreneurial Opportunity](#), benefits, qualities, and overall image should be conveyed throughout the marketing mix to tell a story. In addition, the brand should have a well-

designed logo, the company/product name, merchandise, promotional items, location of the business (that also provides an image or tells a story), and any other tools that communicate with buyers.

Keep in mind that there are differences in branding regarding business size and type. When starting a business, it is likely that you will brand your entire business with one logo, one name, and matching promotional items, business cards, and product packaging. As your number of products grows, you would likely develop different packaging and different images for other product categories.

[Figure 8.11](#) provides a checklist of items that help develop a brand for your venture.

Branding Checklist	
1.	Develop value proposition based on mission and personality of business
2.	Know target market and its identity cues
3.	Craft positioning statement and develop tagline
4.	Integrate marketing mix
5.	Create logo, stationery, and promotional materials
6.	Develop website and social media
7.	Create related content
8.	Monitor brand

Figure 8.11 When starting a business venture, following a few key steps will help in establishing a strong brand. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Promotion through Brand Advocacy

One way to promote your brand is to identify loyal customers who are willing to share positive feedback about it. A **brand advocate** is someone who is a fan of your products and passes on the word to others. Brand advocacy is a potentially inexpensive means of building a brand and one that entrepreneurs should explore. One simple way to motivate brand advocacy is by asking your best customers and fans to refer other customers to you, leave online reviews, and/or to blog or comment about your company and products online. Companies often offer discounts and promotional codes to encourage brand advocates to spread the word.

The key to effective brand advocacy is to know the goal of your advocacy campaign, look for ambassadors (there are many online and in-person events), ask them to perform a task, and reward them for doing so.

An example of advocacy branding is to create a contest to engage consumers who love your product so they can share pictures on social media. IKEA did this in 2016, when it started a contest to win a personalized wardrobe using the hashtag #JoyOfStorage to entice its most loyal fans to share their IKEA products online. The contest asked customers to post pictures of their IKEA products on Facebook ([Figure 8.12](#)). This campaign allowed IKEA to engage and reward loyal customers in a fun way, while also using word-of-mouth marketing to expand their marketing reach.



Figure 8.12 The IKEA #JoyofStorage contest engaged loyal fans and rewarded them for being brand advocates. (credit: work by this_could_be_my_house/Flickr, CC BY 2.0)

WORK IT OUT

Forever 21

After living in Los Angeles for a few years, South Korean natives Jin Sook and Do Wong Chang decided to open a clothing store. They named it Fashion 21. The store became a success, bringing in over \$700,000 in revenue in 1984. Next, they decided to open new stores twice a year while at the same time changing the name of the store from Fashion 21 to Forever 21, expanding their brand globally. While the stores have historically generated over \$3 billion in annual sales, the retailer recently filed for bankruptcy, citing struggles to pay vendors and landlords. The filing comes along with the closing of 178 underperforming US stores and allows Forever 21 to “simplify things so we can get back to doing what we do best.”^[15]

Bankruptcy aside, Sook and Chang have remained at the helm of the company and their children are also in management, one working in marketing and the other in branding. Branding helps the company remain relevant to its youth segment by positioning itself as trendy, innovative, and particularly adaptive to ever-changing tastes in fashion. The company uses its logo, retail stores, and website to showcase its trendy image.

Forever 21 has been sued several times for copyright infringement, as the essence of the company is to provide fashion looks inspired by runway designs but offered at a lower price point. Forever 21 has a long history of settling copyright suits, including a case involving H&M. It has been in legal battles with

Adidas, Puma, and Gucci as well.

- If you were the branding manager, how would you prevent these suits from happening?
- How would you develop a better image of the company?

8.5 Marketing Strategy and the Marketing Plan

Learning Objectives

By the end of this section, you will be able to:

- Distinguish between a marketing strategy, a marketing plan, and a pitch
- Describe the elements of a marketing plan

Now that you have a better idea of what marketing is, you are ready to start developing a marketing strategy and plan. A **marketing strategy** describes how a company will reach consumers and convert them into paying customers. Having a solid-yet-flexible marketing strategy is a good business practice, no matter what kind of business you are in.

A **marketing plan** is a formal business document that is used as a blueprint or guide for how a company will achieve its marketing goals. A marketing plan differs from a business plan in that it focuses more on market research, attracting customers, and marketing strategies, whereas the business plan covers much more than that, as you will see in [Business Model and Plan](#).

Marketing plans are important tools because they act as roadmaps for everyone involved in an enterprise. Writing a marketing plan forces you to specify goals and develop strategies to reach them, and encourages you to research markets and competition. A strong marketing plan will encourage entrepreneurs to think deeply about their business and profit potential, helping them make better business and marketing decisions. Additionally, a marketing plan can create greater involvement and cohesiveness among employees by clarifying goals and expectations.

A variety of marketing plan templates are available that can be modified to fit your business's product and/or services. One thing to consider is why you are writing your plan and who your audience is. In addition to planning for your venture, will it be used by employees or potential investors? Different audiences will require different kinds of information. If it's an employee, then you must include extra details about the operation of the business. If the plan is geared toward acquiring an investor, be sure to highlight the value that will be gained from investing.

Keep in mind that the various parts of a plan do not need to be written in a certain order. Plans should also be seen as flexible guides rather than absolute rules. All good marketing plans are living, breathing documents that help you measure success while allowing for course corrections when necessary. [Table 8.8](#) provides the standard components of a marketing plan.

15 Erica Gonzales. "Forever 21 Has Officially Filed for Bankruptcy." *Harpers Bazaar*, September 30, 2019. <https://www.harpersbazaar.com/fashion/trends/a28849065/forever-21-bankruptcy/>

Sample Marketing Plan Sample

Marketing Plan Section	Description and Purpose
Executive Summary	Provides a snapshot of the whole plan, including profit potential and major strategic ideas
Situation Analysis	Overviews internal and external environments related to the business and product; internal environments include company background and mission; external environments can include market needs, competition, market research, and an analysis of strengths, weaknesses, opportunities, and threats (SWOT)
Marketing Opportunity (Unmet Need, Proposed Solution, Value Proposition)	Validates the market opportunity being exploited by the business and articulates the potential gain for stakeholders
Business Model	Presents the framework for generation of sales and the business's competitive advantage
Marketing Objectives	Specifies goals for sales (in units or dollars), market share growth, brand awareness, secured distribution channels, inventory, and pricing
Marketing Strategies	Explains target market, projected positioning, and strategies as they relate to the marketing mix (7Ps)
Action Program	Defines who will do what and when
Financials	Discloses sales estimates, projected budgets, and financials that will help readers understand the present and future economic condition of the company
Control Procedures	Describes procedures for measuring results, monitoring goals, and adapting the plan as needed

Table 8.8

Executive Summary

The **executive summary** is just that—a clear and concise summary of the major points of your marketing plan. Though it is placed first, it is generally written last because it is based on the information presented in other subsequent sections.

The executive summary is typically one or two pages long and includes key indicators of success for the business and its stakeholders, which may include company owners, managers, consultants, investors, and

banks. Your goal is not merely to summarize everything in your plan but to highlight why people should be interested in your venture. Whether the reader is an employee or a potential partner or investor, the executive summary should seek to not only inform but to excite.

Focusing on the opportunity at hand, what makes your business model special, and the potential financial reward is a good way to capture a reader's attention. For example, if your business' strengths include a great marketing team and a significant competitive advantage, you should highlight them as reasons for success. Some readers may only read this section, so make sure you highlight what makes your company special and how you plan on turning that into profit.

Situation Analysis

In many ways, the basis of your marketing plan is found in your **situation analysis**, which is an examination of the internal and external circumstances relevant to your business and product. A good analysis will provide the logical support for the strategies you choose. For example, the research you conduct here explains why you will develop a certain product, how you will price it, and what you will do to reach your target market.

Good situation analyses often include a SWOT analysis, which looks at a company's strengths, weaknesses, opportunities, and threats. They also look at future and current competitors, and include market validation research that has surveyed potential customers. This information is critical because it proves that you have done your due diligence on your product and market.

Marketing Opportunity

Assuming your background research has led you to determine that there is a business opportunity, this is where you explain what and where that opportunity is. For example, if your research led you to discover a gap in the market for educational children's toys, this is where you explain the depth of the opportunity. Here you use your research as evidence to prove to your reader that there is a market gap and that you know how to fill it. If your goal is to get an investor interested, this is where you would let them know what they stand to gain and when they would gain that.

LINK TO LEARNING

The [US Small Business Administration \(https://openstax.org/l/52SBAMarketing\)](https://openstax.org/l/52SBAMarketing) strives to help business owners initiate and succeed in developing enterprises. Their website is loaded with helpful information, classes, and templates that can help the entrepreneur navigate the intricacies of marketing, as well as provides helpful tips on developing a marketing plan.

Business Model

In this section, your job is to marry the opportunity you saw with the solution you have created. Here you articulate how your competitive advantage and points of differentiation (nature of the solution and its key features and benefits) will provide value to customers and earn profits that will sustain your business into the foreseeable future. What will you do to create value that attracts customers? How will you generate sales?

Who is your target market? If you were opening a gym, this is where you would lay out how you will capture customers, the value they will receive, what types of membership contracts will be available to them, and so on.

A great tool for capturing this information is the Business Model Canvas ([Figure 8.13](#)), which is discussed in [Launch for Growth to Success](#) and [Business Model and Plan](#). The nine building blocks of this model will help you to determine the targeted customer segment, value proposition that you will present each of your segments, channels for the distribution of the proposition or touchpoints, type of customer relationship you will build with your target, types of cost structures and revenue streams based on pricing means, and key resources, activities, and partners that will help you to succeed.

The canvas also allows the entrepreneur to innovate and to change if something doesn't work out. The point of this tool is to put the pieces of a plan together.^[16]

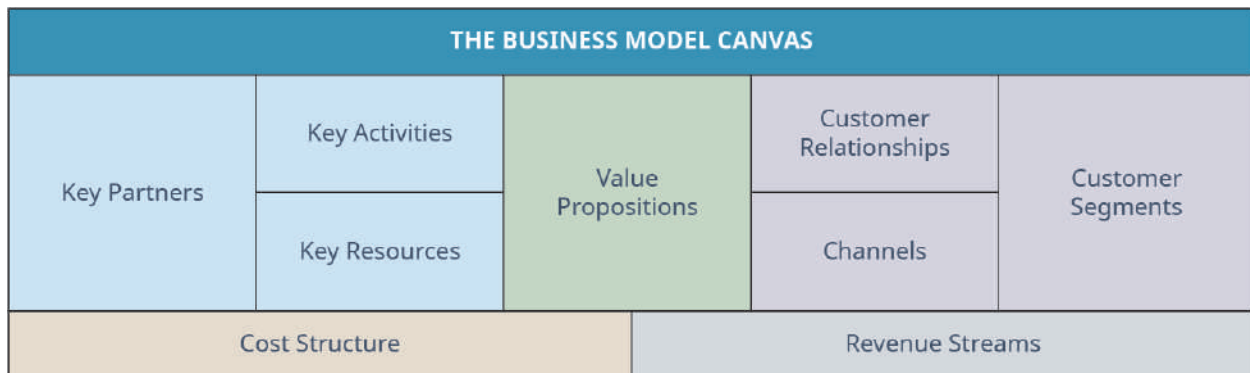


Figure 8.13 A business model canvas brings together key strategies about the product being launched. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Marketing Objectives

Here you present your specific goals and their tangible outcomes. It is not enough to say that you will be very successful without defining what exactly success means. The point of this section is to quantify your goals as units sold, sales/revenue, market share, or some other practical metric. Goals can also include creating measurable brand awareness and developing a certain number of distribution channels.

For example, good, measurable goals might be selling 300 units per month, selling \$600,000 worth of product in a year, or gaining brand awareness of 10 percent of your target market in three months. Avoid goals that are unmeasurable or vague, as they won't help you now or later.

No matter what your goals are, they should be reasonably achievable and as specific as possible. The reason for this is so that later on, you can determine whether you have been successful. If you haven't, you will know something needs to change.

Marketing Strategies

As mentioned earlier, having a good marketing mix will help your business succeed. As an entrepreneur, you want to segment the market and figure out if there are possible pockets of people whom you can serve. The process of segmenting, targeting, and positioning (STP) will help you figure out who is your best customer and allow you to allocate your resources effectively to serve that market.

16 "The Business Model Canvas." *Strategyzer*. n.d. <https://strategyzer.com/canvas/business-model-canvas>

After going through this process, you can look at the marketing mix, and depending on whether you have a product, service, or a mixture of both, which is usually the case, you will outline your approach to the 7Ps of the marketing mix.

Action Plan

In the action plan, you detail how things will get done in your business on a day-to-day basis, when they will get done, and who will be doing them. Often, new business owners develop extensive strategies, but they don't have the people power to implement them. Obviously, ensuring that you have the necessary human resources in place to execute your goals is important. This is the section where you make it clear that you do. For example, if you have a marketing team in place, highlighting their ability to execute your plans will help convince potential investors that you can put your plan into action.

Financials

Here you include budgets, forecasts, and any other information that will give readers and potential investors a clear picture of your business's financial situation. Being transparent and truthful will create trust and goodwill between your company and potential investors.

This section is also important because it will help you determine how profitable your business might be. One place to start is by determining your expenses and future profits. Since most entrepreneurs tend to overestimate these numbers, it is best to develop financial projections for best- and worst-case scenarios, as well as a projection for an average case scenario.

Many entrepreneurs develop one-, three-, or five-year projections to get a sense of future profits and to prove that their business model is sustainable over the long run. [Figure 8.14](#) provides an example.

5-Year Financial Projections: Sammy's Grocery Store					
	2018	2019	2020	2021	2022
Sales/Revenue	\$100,000	\$150,000	\$170,000	\$190,000	\$198,000
Cost of Goods Sold	\$ 30,000	\$ 50,000	\$ 55,000	\$ 57,000	\$ 60,000
Sales and Administrative Expenses	\$ 40,000	\$ 55,000	\$ 60,000	\$ 60,000	\$ 70,000
Depreciation	\$ 10,000	\$ 7,000	\$ 8,000	\$ 8,000	\$ 10,000
Operating Profit	\$ 20,000	\$ 38,000	\$ 47,000	\$ 65,000	\$ 58,000

Figure 8.14 Growth projections appear in the financial section of the marketing plan. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Key Performance Indicators

Finally, you need to determine your key performance indicators, or how you will evaluate the effectiveness of your strategies, by looking at the progress you have made during a specific timeframe. These include the quantitative milestones that will tell you if you are on the right track, help you analyze your decision-making process and focus on specific strategies, and make changes if these don't work.

For example, one of your milestones might be a sales goal of \$50,000 within the first six months. If you are not on track by the time you hit this milestone, it can be an indication that you either overestimated your sales or your strategies are not working. In either case, you will need to make actionable steps to revise your projections or find more effective strategies.

8.6 Sales and Customer Service

Learning Objectives

By the end of this section, you will be able to:

- Explain the importance of sales strategy and provide an example
- Explain the importance of customer service

A **sales strategy** is a plan that the entrepreneur uses to identify and engage a consumer, from prospecting to securing the sale. This strategy should keep in mind the core benefit or competitive advantage that the product or service has and make sure this information filters through the entire sales execution process. The strategy should include a six-step process that is an integrated sales system for how to prospect, pitch, handle rejections, and the like.

Setting objectives is important before reaching out to prospects and current customers because they allow the salesperson to detail the strategy, have an end goal, and measure the results. For example, a salesperson may have a goal of closing one client out of ten prospects he or she sees per week (or through a sales cycle). So the detailed strategy would be:

1. doing research about prospective clients and creating a list,
2. calling them to set up an appointment to talk about your product or service,
3. meeting with them to present a proposal,
4. handling objections,
5. closing the deal, and
6. nurturing the relationship after close.

The end goal would be to gain a prospect as a client and develop a good relationship for future business. And the salesperson would measure the results by looking back at goals and outcomes.

There are many methods, tools, and techniques to sell, and there is no perfect set of strategies for a business. It depends on the goals and resources of the entrepreneur, as well as on the type of product he or she is launching. When selling to customers who are going to be spending a substantial amount on a product or service, like a piece of equipment, a luxury yacht, or an expensive software program, there must be a sales system in place to take consumers from prospects to customers. The preceding six steps are general stages in this system. Let's take a look at each step.

Sample Six-Step Sales Strategy

[Figure 8.15](#) outlines an example of an effective sales system or strategy using a six-step approach.^[17]

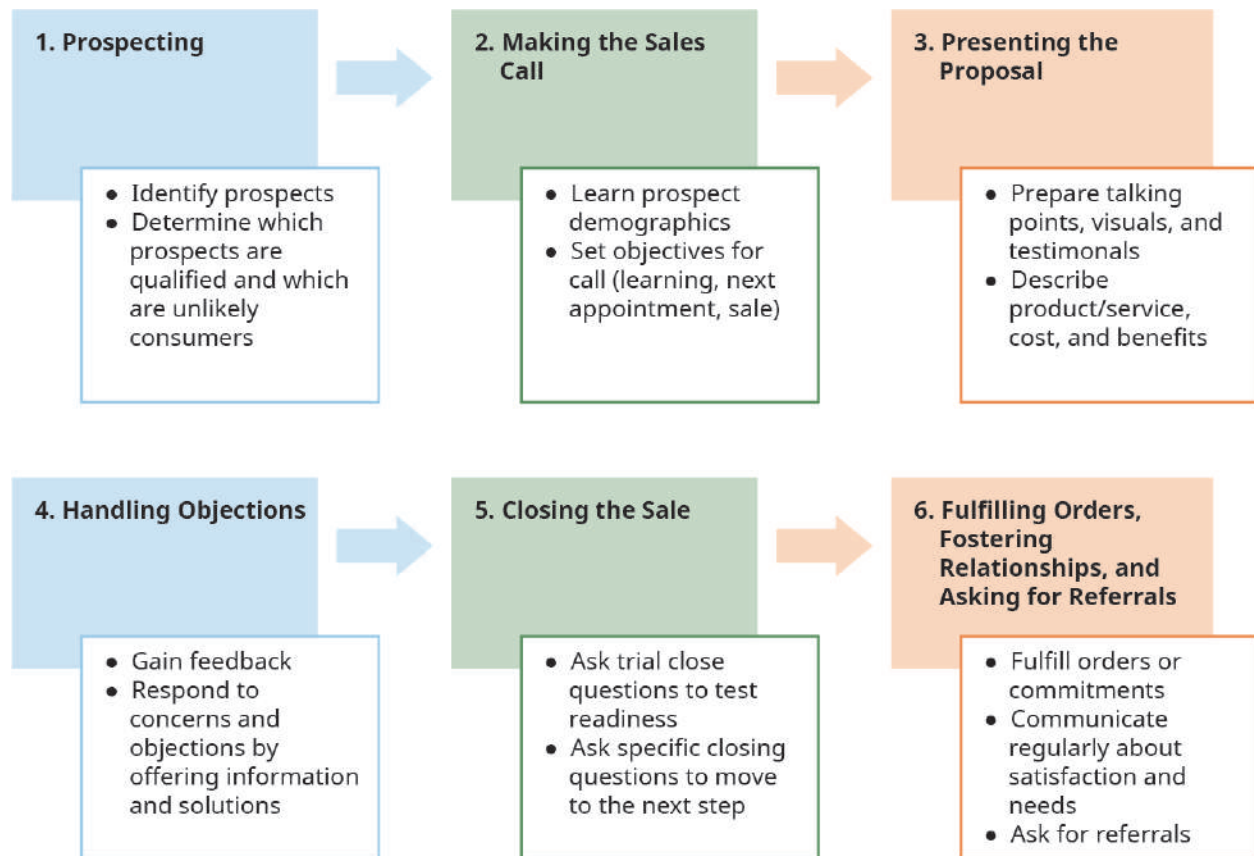


Figure 8.15 The six-step sales process does not end with the sale but with a positive customer relationship. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Prospecting and Preparing

Prospecting focuses on finding potential new customers for the product or service. This helps acquire new customers, replace customers lost to attrition, and expand sales from current customers. In essence, prospecting allows salespeople to collect information about potential customers and identify any who are not a good fit for the company. It is important to get as many prospects as possible to secure a few customers, as the pool of prospects diminishes through successive steps of the sales process.

You may need to have a list of twenty prospects to secure one or two customers. Prospecting also tends to be more important in certain industries such as financial advising or business-to-business industries. To determine whether a person or organization is a qualified prospect, the salesperson must consider several issues, such as whether this person/business needs my product or service, and if they can afford it.

Making the Sales Call

The next step of the sales system is to prepare for a sales call, contact, or meeting with a prospect. Effective sales people usually prepare well in advance of contacting a prospect. A salesperson can look for information regarding the company's demographics, its competition, clients, and other companies they purchase from. Information can be gathered from online sources or referrals. It is also helpful to set objectives before contacting the prospect. Some of those objectives can include securing an appointment for a presentation, understanding the prospect better, scheduling a second call/contact, or perhaps starting a sale.

LINK TO LEARNING

Neil Rackham wrote a book in 1998 called *Spin Selling*. It's a classic in the sales world. In it, he outlined a new way to approach winning big sales deals. SPIN stands for situation, problem, implication, and need payoff. Visit the [SPIN site \(https://openstax.org/l/52SPIN\)](https://openstax.org/l/52SPIN) to learn about Rackham's nontraditional approach to sales and the main principles he advocated.

Presenting the Proposal

Once the salesperson has made a connection with a prospect and understands the prospect's needs, the next step is to meet with the prospect for a sales presentation. A presentation is a great way to expand the prospect's understanding about the offering. Strong presentations include good communication skills with strong visuals and testimonials. In this step, the salesperson can make a better case for the value proposition, citing the strengths of the product and how this would help the prospect in his or her life or how it would help a company's objectives. The presentation can also include the cost of the investment and a projection of the return on investment. In the case of a financial advisor, a presentation at a prospect's home would show the potential products that the prospect might invest in, such as a variety of retirement accounts, life insurance, a college savings plan, or long-term care insurance, along with the costs and benefits of each. In the case of a business, the presentation could take place at the prospect's office, and the meeting could include a slide presentation about a piece of equipment, with video showing how it is used and how it can benefit the company, including cost savings.

Handling Objections

During or after the presentation, a salesperson will likely encounter objections or questions from the prospect. This is a good way for the salesperson to gain feedback and respond to concerns from the prospect. Objections can arise during the appointment setting, during the presentation, or while trying to close the sale. The salesperson must be proficient at dealing with these in a truthful manner so the relationship that is established is based on trust. Some of those objections can include cost concerns, credit capabilities, product benefits, or plain rejection of the product. In this case, the financial advisor could answer questions about the potential benefits of one type of insurance over another, or handle objections on the monthly payment plan. If dealing with a company, these questions can take the form of credit opportunities and amount of cost savings in comparison to a competitor.

Closing the Sale

Once the presentation and objections are handled, the next step is to **close**, or ask for the sale. This is as important as being prepared to present and handle objections because it signals to the prospect that the product is a good fit and the relationship can be created. A good closing includes a trustworthy and logical process. Doing a trial close by asking "How is this so far?" or "Can I answer anything else?" can help the customer feel more at ease with making a decision. The customer will help set the pace for a final closing. Then, the salesperson can set up the next steps or ask the following questions: "Can I place the order for you?" "Can we open the life insurance account for you?" "Can you come see the demonstration at our office?"

“Can we meet next week for the financial terms?”

Fulfilling Orders, Fostering Relationships, and Asking for Referrals

Finally, the salesperson must fulfill the order and make sure that the customer is satisfied with the product or service. The salesperson, in the end, is the one who is the main contact for the customer and therefore is responsible for the fulfillment of a correct order. The order needs to be closely monitored in case there are any delays or issues with it, so the customer can be immediately notified. The process of the order fulfillment has to be monitored until it is fulfilled. Software has now made it easier to keep track of these orders, so the salesperson can spend more time selling and less time on the order process. Customer relationship management tools such as Salesforce (<https://www.salesforce.com/crm/>) can help a small entrepreneur or a larger business keep track of its customers, their orders, troubleshooting, and strategies for cost effectiveness.

Building a direct relationship with the customer is also important; therefore, calls or emails to check in consistently is important to assess customer satisfaction and to build the relationship bridge to ask for referrals. Customer retention is more important than ever, as even a small percentage of customers can make up the majority of your sales. Wooing new customers is 5 percent more expensive than keeping your current ones, and in the long run, those who are your VIPs will generate most of your sales.^[18] Research shows that retaining even 5 percent of your current customers can generate anywhere from 25 percent to 95 percent of your sales.^[19]

Customer Service

One of the most important aspects of making the sale, and one that often wins or loses customers, is customer service. If you have ever stepped into a business where you have been greeted with a smile and treated kindly throughout the purchase process, you will probably want to come back and purchase from that store or salesperson again. However, if the sales associate is rude and doesn't help you find what you need, chances are you will not return to the store a second time. For start-ups, customer service can be an advantage, as the business can focus on a few customers at a time in a more personal manner. The bigger a company is, the harder it is to manage many customers and sales associates on a personal level.

According to Hubspot's top statistics on customer service, 70 percent of the customer experience or journey depends on how they are being treated. The majority of customers fall in love with a brand and are willing to pay a premium for amazing customer service, and they feel that great customer service is more important than price. They will also share positive experiences with other people—an average of eleven, according to Hubspot.^[20] When a customer has a negative experience, or feels unappreciated, they are more likely to switch brands, and a company has to work harder to counteract a negative experience. It takes twelve positive reviews to counteract just one negative, unresolved customer issue.^[21]

As an entrepreneur, focusing on customer service before and after the purchase is an effective reminder that

18 Matt Mansfield. “Customer Retention Statistics: The Ultimate Collection for Small Business.” *Small Business Trends*. August 22, 2019. <https://smallbiztrends.com/2016/10/customer-retention-statistics.html>

19 Jia Wertz. “Don't Spend 5 Times More Attracting New Customers, Nurture the Existing Ones.” *Forbes*. September 12, 2018. <https://www.forbes.com/sites/jiawertz/2018/09/12/dont-spend-5-times-more-attracting-new-customers-nurture-the-existing-ones/#723fd9e15a8e>

20 Swetha Amaresan. “31 Customer Service Stats to Know in 2019.” *HubSpot*. March 19, 2019. <https://blog.hubspot.com/service/customer-service-stats>

21 Swetha Amaresan. “31 Customer Service Stats to Know in 2019.” *HubSpot*. March 19, 2019. <https://blog.hubspot.com/service/customer-service-stats>

the company is trying to build trust and have a relationship with its customers. This also helps with the process of branding, as you've learned. Even in business-to-business sales transactions, the most important aspect of the sales process is building that trust relationship so the customer purchases from a "friend" again. Often when companies lose accounts, it is due to a change in sales personnel and the loss of the associated relationship.

One effective way to ensure great customer service is to create an operating manual for your employees that includes proper techniques for customer service. These techniques can include how to greet a customer, how to listen and help them get what they need, the philosophy of your company, how far to go when insuring great service, and how to be creative with customer service. Employees can review the manual when they are hired, and every year after that to ensure they continue to follow the procedures. Training programs before starting work and during the year can be facilitated by the entrepreneur or a consultant to sharpen the skills of the employees. These programs are a great way to energize salespeople to be more people oriented and to develop the proper attitude and positive thinking that is required when helping customers. Sales training programs are a great way to learn more about customer service. Zig Ziglar and Dr. Cialdini programs are designed with the salesperson in mind.

Also, when hiring, focus on candidates who already have customer service experience and those who come with good referrals. Incentives for great customer service such as an employee of the month/year award or financial incentives can also encourage employees to provide great service. Finally, the entrepreneur and any administrators are the leaders of a company who must show the same customer service to their employees. Walk the talk! If they realize that they are there to serve their employees and enable them to create a great customer service atmosphere, then the employees will share the same enthusiasm and energy toward their customers. Happy employees turn into profitable customers. [Figure 8.16](#) shows a quick checklist for beginning entrepreneurs.

Customer Service Checklist for Beginning Entrepreneurs
<ol style="list-style-type: none"> 1. Develop guidelines or an operation manual for how to handle customer service. 2. Train employees before and during their employment. 3. Hire employees with great customer service experience or those with the potential to learn. 4. Provide incentives such as awards and prizes. 5. Walk the talk! Provide great customer service to your employees. Your attitude and disposition matter and your employees will follow you if they feel appreciated.

Figure 8.16 The quality of customer service can make or break a company. Following a few basic steps can ensure great customer service. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Customer service doesn't happen just in person or on the phone. Technology has enabled people and companies to connect through email and social media, taking the conversation and interaction online. Customers can now talk to the company employees, voice their concerns, and get issues resolve through these avenues. These technological advances have provided a bigger platform for customers to rave about companies or complain about them.^[22] This love or dislike can translate into social media posts, tweets, pictures, videos, and reviews for thousands or millions of people to see and can help or tarnish a company.

22 Liz Greene. "Social Media Is a Customer Service Channel Whether You Like It or Not." *Digital Marketing Institute*. n.d. <https://digitalmarketinginstitute.com/en-us/blog/social-media-is-a-customer-service-channel-whether-you-like-it-or-not>

Key Terms

- advertising** mass communication that allows companies to reach a broad audience through TV, radio, newspaper, Internet, magazines, and outdoor ads
- brand** image a company promotes and the connotations it fosters of itself and its products
- brand advocate** someone who is a fan of your products and passes on the word to others
- brand strategy** image a company conveys to its customers
- bundling** bundle of products that is discounted to encourage customers to buy in bulk
- causal research** identification of cause-and effect-relationships between two or more variables
- close** step in the sales process in which the salesperson asks for and gets the sale
- conjoint analysis** survey tool in which respondents must rank, choose, or rate a number of “conjoint,” or linked, features or benefits
- cost-led pricing** easiest way to price a product by taking the cost of making the product and marking it up to create profit
- customer-led pricing** pricing led by what the customer is willing to pay
- digital marketing** online marketing
- direct mail** connecting to consumers via email or through printed mailed pieces
- entrepreneurial marketing** set of unconventional practices that can help start-ups and younger firms survive in competitive markets
- ethnographic research** use of personal observation of the subject by being immersed in the subject’s environment
- executive summary** initial section of a business plan document that summarizes the key elements of the entire plan
- expeditionary marketing** marketing designed to move established companies and their products into new markets and territories
- focus group** gathering of people, typically six to twelve participants, who come together to discuss a topic presented by a moderator, who usually poses questions and collects qualitative data that can be used to answer questions or define research further
- guerrilla marketing** creative approaches to marketing that seek to gain maximum exposure through unconventional means
- introductory offers** using lower initial prices to attract new customers and build a customer base before prices return to their standard amount
- jingle** short song or sound that brands a product or company and helps to promote it
- loss leader pricing** using a below-standard price to attract customers in the hope that they will purchase other, more profitable goods and services
- market analysis** analysis of the overall interest in the product or service within the industry by its target market
- market opportunity** unmet need within a target demographic
- market research** collection and analysis of data related to a business’s target market
- marketing** umbrella term given to those activities that companies use to identify consumers and convert them into buyers
- marketing mix** basic set of possible strategies and approaches that marketers use to reach their target market
- marketing plan** formal business document that used as blueprint for how a company will achieve its marketing and business goals

marketing strategy company's game plan for how it will reach consumers and convert them into paying customers

odd numbers strategy psychological pricing strategy that uses odd numbers in the prices to make a product's price point more attractive to consumers

penetration pricing pricing below that of a competitor's price

people company's human resources

personal selling using face-to-face interactions to communicate and influence a customer to make a purchase

physical environment where a service takes place or a product is manufactured

place channels or locations—physical or digital—where products can be found by customers

positioning (or value proposition) statement of how you want the customer to perceive your company, good, or service

premium pricing charging a price above a competitor's price

price value that must be exchanged in order for a customer to receive a product or service

primary research research that involves gathering new data

process chain of procedures and/or activities required to provide the product to the customer

product good or a service that creates value by fulfilling a customer need or desire

profit margin amount by which revenue exceeds costs, typically described as a percent

promotion process of communicating value to customers in a way that encourages them to buy

public relations marketing that focuses on connecting with constituents by developing goodwill

qualitative research use of open-ended techniques such as observation, focus groups, and interviews to gain an understanding of customers' basic reasons, opinions, and motivations

quantitative research generation of numerical data through techniques such as surveys and questionnaires

real-time marketing seeks to turn immediately available sales data into actionable and timely strategies that target the shifting landscape of consumer tastes and trends

relationship marketing creates customer loyalty through personal interaction and strives for long-term engagement

sales promotion incentives such as coupons and discounts that help attract customers and help them take action

sales strategy plan that the entrepreneur uses to identify and engage a consumer, from prospecting to securing the sale and beyond

sample group of people participating in market research

secondary research research that uses existing data

segmenting separating the total population by homogeneous groups of people that have similar tastes, backgrounds, lifestyles, demographics, and culture

serviceable available market (SAM) portion of the market that a business can serve based on its products, services, and location

situation analysis examination of the internal and external circumstances relevant to a particular business

skimming high-pricing strategy that leverages the newness of a product in order to "skim" the most profits off the top at the beginning of a sale

social media online communication tool for entrepreneurs to connect with consumers, especially younger demographics

tagline short and catchy positioning statement that quickly communicate some core aspect of the brand to the consumer

target market specific group of consumers for which a company seeks to provide a good or service

targeting selecting a customer group based on their ability and willingness to buy

total available market (TAM) total perceived demand for a product or service within the marketplace

validation act of verifying that a product can be successful with a target audience

viral marketing marketing that uses engaging content in the hopes that viewers will share it on their personal and social media networks

word-of-mouth (WOM) marketing promotion in which a satisfied customer tells others about their positive experience with a good or service



Summary

8.1 Entrepreneurial Marketing and the Marketing Mix

Marketing refers to those activities companies use to identify consumers and convert them into buyers. Entrepreneurial marketing is a set of unconventional practices that can help start-ups and younger firms survive in competitive markets. One way to think of the marketing mix is to break it into the 7Ps: product, promotion, price, place, people, physical environment, and process. Entrepreneurs often don't have deep enough resources to use all of these marketing tools, so they need to be strategic in which ones they choose and how they execute them.

8.2 Market Research, Market Opportunity Recognition, and Target Market

Market research is an important aspect of being an entrepreneur. Research can help you vet ideas as well as reveal opportunities that you may not have seen before. Whether you are using secondary data or performing primary research, it is important to know your research questions and goals. Good market research and analysis can help you position your product within your target market.

8.3 Marketing Techniques and Tools for Entrepreneurs

Marketing doesn't have to be expensive; entrepreneurs have many affordable techniques at their disposal. The only input necessary for these techniques is plenty of passion, creativity, and energy. These tools include guerrilla, relationship, expeditionary, real-time, viral, digital, and WOM marketing. The pros of using these techniques are plenty, as you can see from the examples shared for each of the tools. They include being able to reach many people at the same time; leveraging the timeliness of feedback; and making real, sincere connections with people. In addition, affordability, creativity, and good results (clicks, shares, comments, purchases, and awareness) can stem from using these techniques. On the negative side, customer reviews that are not so positive can also make their way through these channels and damage the reputation of a company if they are not handled with care.

8.4 Entrepreneurial Branding

Branding gives an identity to the product and company to which the customer can identify. It is based on its mission, goals, and product benefits, and it must be integrated with the marketing mix for greater impact. Brands help communicate a message to the consumer about product quality, pricing, and overall benefits. When the communication strategy is not cohesive, the consumer may become confused by the different signals the company sends. The entrepreneur must work hard to create a unified message all the way through.

8.5 Marketing Strategy and the Marketing Plan

Once you have an idea of your marketing mix, the next step is to develop actionable strategies and write them down in a marketing plan. A marketing strategy describes how a company will reach consumers and convert them into paying customers. A marketing plan is a formal business document that is used as a blueprint or guide for how a company will achieve its marketing goals. A good marketing plan can be used to guide

internal decisions and attract external investors.

8.6 Sales and Customer Service

Sales drives profit. They may require a simple sales approach or a complicated sales system. An example of a sales system is a six-step sales strategy: doing research about prospective clients and creating a list; making an appointment to talk about your good or service; meeting with them to present a proposal; handling objections; closing the deal; and nurturing the relationship after close. When selling luxury and expensive items, the sales approach is usually more thorough and requires more sales training and finesse. Customer service is a component that is linked to this process and with proper training can really differentiate a company from the competition.



Review Questions

1. What are the differences between traditional and entrepreneurial marketing?
2. What is a target market? Why is it important to know the target before creating the marketing mix?
3. What are the components of the marketing mix? Explain each component.
4. What is the difference between pricing a product based on what competitors charge and pricing a product based on the company's costs?
5. Check out the website <http://www.flyzipline.com/>. Who is the target market? What are their 7Ps?
6. What is market research? Why is it important to do research before you start a business?
7. How does primary data differ from secondary data?
8. How does STP help entrepreneurs?
9. How does guerrilla marketing differ from viral marketing?
10. What types of activities are involved in digital marketing? Choose one and explain.
11. What is a brand? Why is it important to work toward gaining recognition for the brand, especially for a start-up brand?
12. How does a tagline help with positioning?
13. How does a marketing plan help an entrepreneur?
14. What is the difference between a marketing objective and a marketing strategy?
15. What are the steps in the sales process?
16. How does customer service impact sales of a new business?



Discussion Questions

1. If you could open a business right now, what would it be? Who would be your target market?

2. Look at the Wag! website <https://wagwalking.com/> and determine the 7Ps of this service. Do they work well together? Why or why not?
3. Give an example of a company that uses bundle pricing and explain why it uses this method.
4. Discuss how market research can benefit entrepreneurs.
5. What is the difference between qualitative and quantitative data?
6. Give examples of how entrepreneurs can leverage marketing activities even when strapped for cash.
7. If you had a business that was highly dependent on WOM marketing, how would you ensure the information passed along was positive? If the message passed along was negative, what would you do about it?
8. Describe how a brand advocate might help IKEA position itself as a cost-effective and design-oriented furniture store. Now discuss how a brand advocate can help a new product on the market establish a good reputation.
9. Discuss how the business model canvas can help an entrepreneur create a framework for generating sales. Think of a business you like and describe how it generates sales.
10. Negative referrals can have a great impact on a company's sales. Remember an instance where you were the source of a bad referral for a product or service, and determine what made the experience so negative. What would you have done differently as the sales person to prevent that?



Case Questions

1. Claire is a young artist who has decided to sell her paintings to make some money while she finishes college. She doesn't know much about promoting her work, especially through online channels. Since you are studying business, she has asked you for your advice on promoting her work to a young professional demographic who would be inspired by her message through the arts. Describe two types of promotional tools she can use to connect with her ultimate customer.
2. You have recently been hired to work as a marketing manager for a boutique hotel in San Diego. This hotel is the only one of its kind and is not part of a chain. It only has 50 rooms that have been carefully designed to fit a younger, eclectic, design oriented, and higher-income demographic. The owner needs help pricing the rooms and other hotel services (see the following). Determine which pricing strategy you would use (customer-led, cost-based, competition-based, premium, etc.) for each of the following items and explain why. If necessary, look at some industry reports on how hotels price their services and decide if you should go the same route or try something else.
 - A. Room rate (weekly and weekend)
 - B. Restaurant food
 - C. Parking
 - D. Internet and movie access
3. One of your classmates would like to open a food delivery service in town. This service would allow people to buy lunch or dinner through an app from a list of restaurants. She's in the early stages of her analysis and she is asking your advice on possible sources of data that she can use. What kind of resources would you direct her to? Why?

4. One of your classmates recently opened a new gym in an up and coming professional area. She is an accomplished trainer, but has little experience in business. She asks your help in coming up with a specific target market. You share with her the STP process.
5. Visit the current Birchbox website, its online promotions, social media, online ads, and anything you can find about its digital marketing strategies. If you were in charge of digital marketing for Birchbox, what would you include or delete from their current activities?
6. Visit the Method website at <https://methodhome.com/> and describe all of the branding components they use to position themselves as the best cleaning products in the US market.
7. You have recently become a supplier of heavy equipment to manufacturing plants that build automotive components. You have acquired one customer and would like to add more within the next three months. How would you go about prospecting?



Suggested Resources

8.1 Entrepreneurial Marketing and the Marketing Mix

American Marketing Association: <https://www.ama.org>

Small Business Administration: <https://www.sba.gov/>

8.3 Marketing Techniques and Tools for Entrepreneurs

AMA Digital Marketing Certification: <https://www.ama.org/events-training/Certification/Pages/digital-marketing-certification.aspx>

AMA on Demand course: Digital Marketing: Delivering a Custom Experience: <https://www.ama.org/events-training/virtual-events/Pages/digital-marketing-virtual-conference-051717.aspx>

Google Ads: <https://ads.google.com/home/>

Google Analytics: <https://analytics.google.com/analytics/web/provision/#/provision>

Hubspot Google Ads guide: <https://blog.hubspot.com/marketing/google-adwords-ppc>

8.4 Entrepreneurial Branding

Hubspot's Beginner's guide to branding: <https://blog.hubspot.com/agency/develop-brand-identity#.WgSASHcJI2E.mailto>

8.5 Marketing Strategy and the Marketing Plan

Business Model Canvas: <https://strategyzer.com/canvas/business-model-canvas>

Hubspot Marketing Plan templates: <https://blog.hubspot.com/marketing/marketing-plan-template-generator>

Small Business Administration: <https://www.sba.gov/business-guide/manage-your-business/marketing-sales>

8.6 Sales and Customer Service

Cialdini online tools: <https://www.influenceatwork.com/>

Hoffman Sales Training: <https://sellhoffman.com/>

Neil Rackman: <http://neilrackham.com/>

Spin Selling: <https://blog.hubspot.com/sales/spin-selling-the-ultimate-guide>

Zig Ziglar: <https://www.ziglar.com/>

The State of Customer Service: https://offers.hubspot.com/state-of-customer-service?hubs_post-cta=anchor&hsCtaTracking=9c545446-aacf-47a3-bfb3-1998f78b79c8%7C4f98051f-03f6-4061-9a68-5de8fcbb40c1

Cialdini, R. B. (2001). *Influence: Science and Practice* (4th ed.). Boston: Allyn & Bacon: Explains some aspects of the sales process in a fun and fact-based manner.