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Marketing in an Entrepreneurial Context

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

You must understand this important point or your entrepreneurial career is likely to be truncated. Moreover, it is critical for you to understand marketing’s role in creating and retaining satisfied customers. Simply put, it is marketing that enables you to discover, create, arouse, and satisfy customer needs and wants. In entrepreneurial terms, we often say that a successful enterprise is

built by a smart entrepreneur who finds a source of “market pain” and creates a “unique” way to cure it!

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

The result was a tremendous success. The company has opened up franchise-owned stores all across America and also distributes its dog treats through major retail chains, including Kroger, Walmart, Costco, and Hannafords. The company is planning to triple the number of stores and double factory sales over the next three years. And, like many good, socially conscious entrepreneurs, the founders of Three Dog Bakery have also started a nonprofit foundation (Gracie Foundation) for neglected and abused dogs.

Three Dog Bakery is an example of a successful entrepreneurial startup that was based on a key concept in marketing—discovering customer needs and satisfying them. Or, as we say, finding a source of market pain and finding a unique way to alleviate that pain!

Marketing: Defined

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

Second, be wary of the many misconceptions about marketing, including many negative ones. For example, marketing is not hucksterism; it is not selling unwanted things and taking the customer’s money. Nor is marketing about manipulating, fooling, or tricking the customer. Instead, marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. This definition stresses the importance of customer value and customer relationships. As an entrepreneur, your business must create and deliver customer value. Moreover, to retain customers, you must focus on developing long-term relationships with them. If you do, you will find that these customers will remain loyal to your enterprise and can be a valuable resource in recommending your business to others.

The Seven Steps in the Marketing Process

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

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

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David Schomer, founder of Expresso Vivace Roasteria in Seattle, Washington, has mastered many of these steps in the marketing process and therefore finds himself in the Entrepreneurial Marketing Spotlight!

**Entrepreneurial Marketing Spotlight**

David Schomer knows something about the importance of entrepreneurial marketing. One of the key steps he has taken to ensure the success of his $1.7 million business is to focus on rigorous staff training to ensure that the customer receives outstanding service and products and a superior customer experience. This has resulted in high customer loyalty to the business. He also says that his pursuit of gourmet coffee perfection resonates with a customer base that is looking for an expression of craftsmanship that chains like Starbucks cannot provide. Thus, he says he has no desire to turn Vivace into the next Starbucks. Instead, he aims for manageable and sustained growth. And, he states, “I make coffee for people who love coffee.” But like many other successful entrepreneurs, Schomer is not complacent and continues to find new ways to create and market goods of extraordinarily high quality. Accordingly, he deserves to be in the entrepreneurial marketing spotlight!  

Why Marketing in New Ventures Is Different

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

- The entrepreneur must use marketing to identify new products, services, or experiences to market to new customers and not simply use it to sell existing products and services to existing customers.
- The entrepreneur must use marketing to obtain his or her “first customer” (gain the first dollar of business) and not simply manage an existing customer base.

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The entrepreneur must use marketing to build a new brand and not simply manage an existing brand.

The entrepreneur must use marketing to establish effective marketing channels of distribution and not simply manage existing distribution methods.

The entrepreneur must use marketing to establish initial price points for his or her offerings and not simply manage current prices for existing offerings.

The entrepreneur must use marketing communications to persuade customers to try his or her offerings and not simply remind customers to continue to buy.

The entrepreneur, because of resource scarcity, must find creative ways to leverage his or her marketing efforts, especially early in the venture startup phase.

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

Using Marketing to Discover and Satisfy Customer Needs

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

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

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

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consists of eight elements, or 8Ps: product, price, promotion, place, people, physical evidence, process, and productivity.

**The 5Ps of Product-Based Ventures**

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

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

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

<table>
<thead>
<tr>
<th>FIGURE 1.1 The 5Ps for Sephora</th>
</tr>
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<tbody>
<tr>
<td><strong>Product:</strong> Broad range of quality skincare, makeup, and fragrances for women and men (nationally branded and private label)</td>
</tr>
<tr>
<td><strong>Price:</strong> Above market</td>
</tr>
<tr>
<td><strong>Promotion:</strong> Public relations, catalogs, and customer loyalty program</td>
</tr>
<tr>
<td><strong>Place:</strong> More than 500 stores in fourteen countries, online (<a href="http://www.sephora.com">www.sephora.com</a>), and 1-877-Sephora</td>
</tr>
<tr>
<td><strong>People:</strong> Highly trained, knowledgeable, and customer-centric consultants</td>
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Sephora has a unique open-sell environment with more than 200 brands plus Sephora’s private label. The company emphasizes training of its people and even opened Sephora University in San Francisco to educate its personnel on both products and customer relations. The company has achieved outstanding year-over-year sales growth since its launch.
The 8Ps of Service-Based Ventures

A marketing program for a service-based venture—a venture that markets “intangibles”—would consist of a combination of eight marketing mix elements (8Ps):  

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

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

Market Fulfillment Versus Market Creation

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

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

Basically, Ford was telling us that when we try to discover what customers want, they will often simply ask for better versions of existing products. But this approach will not help an entrepreneur who wishes to produce breakthrough or new-to-world innovations. These concepts are radically different and are sometimes beyond the imagination of the customers. Thus, customers may not recognize that they need or want such innovative concepts. For example, FedEx created the overnight package delivery market, a market that did not previously exist and a market that customers did not

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know could exist. CNN created the 24/7 cable news market, and again, customers did not imagine such an offering being developed. A more recent example is the “flying car.” The Terrafugia Transition is a two-seat aircraft designed to take off and land at local airports and drive on any road. According to entrepreneur and creator Carl Dietrich, this product changes the world of personal mobility. Travel can now become a hassle-free integrated land-air experience. It will be available on the market in 2011, and forty people have already made a deposit on the $195,000 flying car!8

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

The External Marketing Environment

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

8Personal interview with Carl Dietrich, creator of the Terrafugia Transition, 2009.
This is in contrast to other, typically unsuccessful, entrepreneurs who treat these external forces as rigid, absolute constraints that are entirely outside their influence. These entrepreneurs simply fail to anticipate and respond to these external forces. But successful entrepreneurs who are forward looking and action oriented do take advantage of these external forces. In other words, they find opportunities that are created by these external forces by aligning their enterprise to capitalize on these forces. For example, one entrepreneur saw the rising incidence of obesity in America, an external factor seemingly beyond his control. But by observing and analyzing this trend, he developed a “plus size” retail clothing business and became a successful entrepreneur. Another entrepreneur noticed the aging population of America, especially the growth in the grandparent population who wanted to stay connected with their grandchildren. Capitalizing on this trend, the entrepreneur rolled out a new online business called “grandparents.com.”

Five Forces in the Entrepreneurial Marketing Environment

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

*Social Forces*

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

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

**Economic Forces**

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

**Technological Forces**

Another environmental force is dramatic technological change. In fact, new technologies are forever changing the way consumers shop and what they buy. Moreover, new technologies are enabling entrepreneurs to create unique new businesses or enhance how they can conduct their businesses. One of the most important technologies that has changed the marketing landscape is the Internet. Entirely new entrepreneurial enterprises have
been built around the Internet—pure-play e-businesses that exist only in an electronic marketplace. A good example is Craigslist with its electronic classified ad business. Other brick-and-mortar enterprises also leverage the Internet as part of their overall marketing efforts.

The Internet has also given rise to a host of new businesses built upon the concept of electronic social networks/communities such as MySpace and Facebook as well as electronic trading businesses such as eBay. Finally, wireless communication technology is also enabling consumers to stay connected to the Internet 24/7 regardless of where they are, and this is providing new opportunities for entrepreneurs wishing to provide goods and services to this mobile population.

**Competitive Forces**

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

Regulatory Forces

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

Environmental Scanning

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

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

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

- **Network with the right people.** This means staying engaged with knowledgeable and informed individuals and to remain open to learn from these people. One expert suggests that you “take a neuroscientist, sociologist, psychologist, or artist to lunch.” These people can provide insight into human behavior, how markets develop, and how consumers think and feel about their experiences in the marketplace. Networking also involves being tapped into your community to keep in touch with trends that are affecting the people who might become your customers.

- **Be self-observant.** This means spending time discovering what makes you tick, what is important to you, and what challenges or problems you face. You might not be the typical consumer, but this is a good exercise in uncovering what possible trends are driving your behavior. You can then determine whether what affects you may also affect others.

- **Challenge your assumptions.** In many cases, there are traditions in society and/or in particular industries that may have outlived their usefulness. For example, there is an American tradition for school-age

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9Based on a speech delivered at the University of New Hampshire, fall 2004.
students to have a two-month summer vacation. And most people do not know why this tradition persists. Well, it is a carryover from the agrarian society when children in farming families took time off from school to help harvest the crops. Today, many educational institutions are challenging this tradition, and this has led to entrepreneurial opportunities such as private schools offering year-long programs or innovative summer learning programs.

- *Spend time watching and talking with customers.* This is perhaps one of the most important steps in the environmental scanning process. Good environmental scanners focus their time on interacting with customers to determine their current and future needs. Successful entrepreneurs, in fact, pinpoint not only where customers are today (in terms of needs) but where they are heading in the future.

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

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

**An Environmental Scan of the United States**

An environmental scan of the U.S. marketplace might uncover key trends, such as those listed in Figure 1.3. These trends are categorized under the five environmental forces discussed earlier.
Although the list of trends is far from complete, it reveals the breadth of an environmental scan—from the growing ethnic diversity of the American population to the shift to the experience economy to the increasing use of new technologies. As you examine the trends listed in Figure 1.3, you should be able to think about the implications of such trends and whether you can find opportunities that will stem from these trends.

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

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

**Entrepreneurial Exercise**

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

**Key Terms**

- Marketing 3
- Target market 5
- Market segmentation 6
- Marketing mix 6
- 5Ps 6
- 8Ps 7
- Five environmental forces 11
- Environmental scanning 14