

4-1-2006

Golden Rules of New Venture Creation

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Recommended Citation

Johnson, A., & Holcomb, R. B. (2006). Golden Rules of New Venture Creation. *The Journal of Extension*, 44(2), Article 22. <https://tigerprints.clemson.edu/joe/vol44/iss2/22>

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April 2006 // Volume 44 // Number 2 // Ideas at Work // 2IAW2



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Golden Rules of New Venture Creation

Abstract

When assisting stakeholders developing new value-added businesses, Extension faculty need to direct their attention to market research and the assessment of their clients' strengths/weaknesses prior to the development/launch of their product. This article presents two rules, "know thy customer" and "know thy self," and supporting details to help in the new venture creation process. The rules were developed based on two Extension programs in value-added centers. The information will help Extension agents understand the need to pay closer attention to markets and management when helping their clientele, and they will be able to communicate that need to them.

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Introduction

People will continue to turn to Extension for help in starting a business (Muske & Stanforth, 2000; Burney, 2001). The authors, two Extension economists at separate value-added centers, recognized patterns of behavior after assisting hundreds of clients in the new venture creation process. Two of the most common and detrimental mistakes people make are forsaking planning and research for tangible projects (i.e., product development) and not being realistic about their abilities. As a result, they've formulated two rules to help clients keep in mind the important but less obvious tasks that need to be completed. The rules are presented in this article, along with some specific direction for the adherence to each rule.

The information will help Extension agents understand the need to pay closer attention to markets and management when helping their clientele with value-added start-up assistance. Also, they will be better able to communicate that need to their clientele.

Golden Rule I: Know Thy Customer!

Many entrepreneurs think they have a wonderful product, and friends/family often agree. Unfortunately, they often avoid the critical question: What does the customer really think? This question is vital to the success of small, niche marketers. There are at least three follow up questions to be concerned with.

1. Does the product/service meet a customer's needs or wants?
2. How can the new business attract customers to its product(s)/service(s)?

3. How can the new business keep those customers coming back for repeat purchases?

These questions must be answered before effort and money is expended on product development or other tasks to which people naturally gravitate in this process.

The answers are found through market research, a task with which Extension specialists often help. The primary objective of market research at this early stage is to help the company determine whether or not a sufficient sized market exists for their product. The second objective is to help drive decisions on what form a product needs to take, where that product will be sold, what price the ultimate consumer will pay for the product, how to minimize competition while maximizing market potential, and how to promote the product. All are critical aspects in building a successful consumer products business.

Market research, whether conducted by the individual or contracted, will help the entrepreneur identify a specific niche to pursue. The niche must be associated with a specific want/need by a consumer group, a geographic location, and/or a characteristic (either of the product or of its packaging/labeling) that has some value to a target market. The reader is directed to Kotler (2002) for more on product positioning.

Knowing the customer/market will provide greater focus and more efficiency in the rest of the business development process. One client knew her general target market, but because she failed to understand how they would receive her product, she didn't have clarity and focus in the product development stage. As a result, after two different product types and two years, she still has no business--and this is one of the more promising ideas one center has dealt with.

Golden Rule II: Know Thy Self!

While knowing the customer is necessary, it is not sufficient to ensure success. Entrepreneurs often pay little attention to their management skills. This certainly supports the findings of Bernhagen and Mott (1986): the failure of many small businesses is attributed to the lack of management skills and poor management practices.

A good place to start is with the business. Firms must know the key factors and critical skills needed for their profitability/success (production choice, quality/image, marketing, costs, etc.). The critical skills needed to launch a new business vary by the type of product being introduced. For example, where several near-homogeneous products are competing for customers in a slow-growth market (e.g., jams/jellies), marketing skills are crucial, and production skills are secondary. Conversely, for some functional foods and those products tailor-made to meet specific dietary needs (e.g., high-antioxidant processed foods), production knowledge may be the most critical need.

An entrepreneur must be able to determine if his or her strengths lie in the areas of production, marketing, or business management and how those strengths match up with the needs of the business. Strengths of an entrepreneur are often developed over time from experience. Previous experiences related to the industry of choice or the addition of personnel with those experiences, benefit a company during the development and launch phases. Experiences in a given industry segment, management experience in a variety of areas (production, personnel, marketing, financial), and previous entrepreneurial efforts extend the probability of a business having a successful launch.

Marketing and management experiences are generally much more important for a new product launch than production experience. Contrary to the beliefs of most entrepreneurs, there are manufacturers with excess capacity who can make their product as well as they do at a contracted price. However, several publications and studies (e.g., Gaskill, Van Auken, & Manning, 1993; Jenkins & Jenkins, 1997; Muske & Stanforth, 2000) have identified marketing and financial management skills as primary deficiencies of small businesses.

Many entrepreneurs with previous start-up experiences understand that it may take 3 to 5 years for a new business to generate a significant annual profit, if it is going to be profitable at all. Unfortunately, entrepreneurs without previous start-up experiences are often over-confident: they think their businesses will become profitable and cash flow within the first year. They fail to consider Murphy's Law and make contingency plans for possible adverse events. They also underestimate the time, money, and effort necessary to get the business started.

Value-added centers, Extension specialists, Small Business Development Centers (SBDC), Senior Corps of Retired Executives (SCORE), and of course accountants can help entrepreneurs develop financial management skills. Value-added centers and Extension specialists, as well as state-sponsored programs, may also be able to help entrepreneurs hone their marketing skills and establish personnel management policies. However, marketing skills are often difficult to develop and may require specialized training or even outsourcing these responsibilities to professional marketers.

Determining the value/importance of one's critical skills and relevant experiences is not difficult; determining how to combat one's weaknesses may be much more of a challenge. The bottom line is: If an entrepreneur doesn't have experiences in general management (i.e. developing and executing a business model), they would be well served by surrounding themselves with those who

do. Sometimes, it is advisable to hold off on the development of one's business idea until the necessary skills and experience set are acquired.

Conclusions

Developing and launching a new business requires considerable research and meticulous planning to improve the odds of success. It is hoped that new entrants into value-added efforts, and the Extension specialists who assist them, will carefully consider the rules of "know thy customer" and "know thy self" before starting their ventures. Both will help the would-be entrepreneur develop a more desired product, and a more successful business.

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