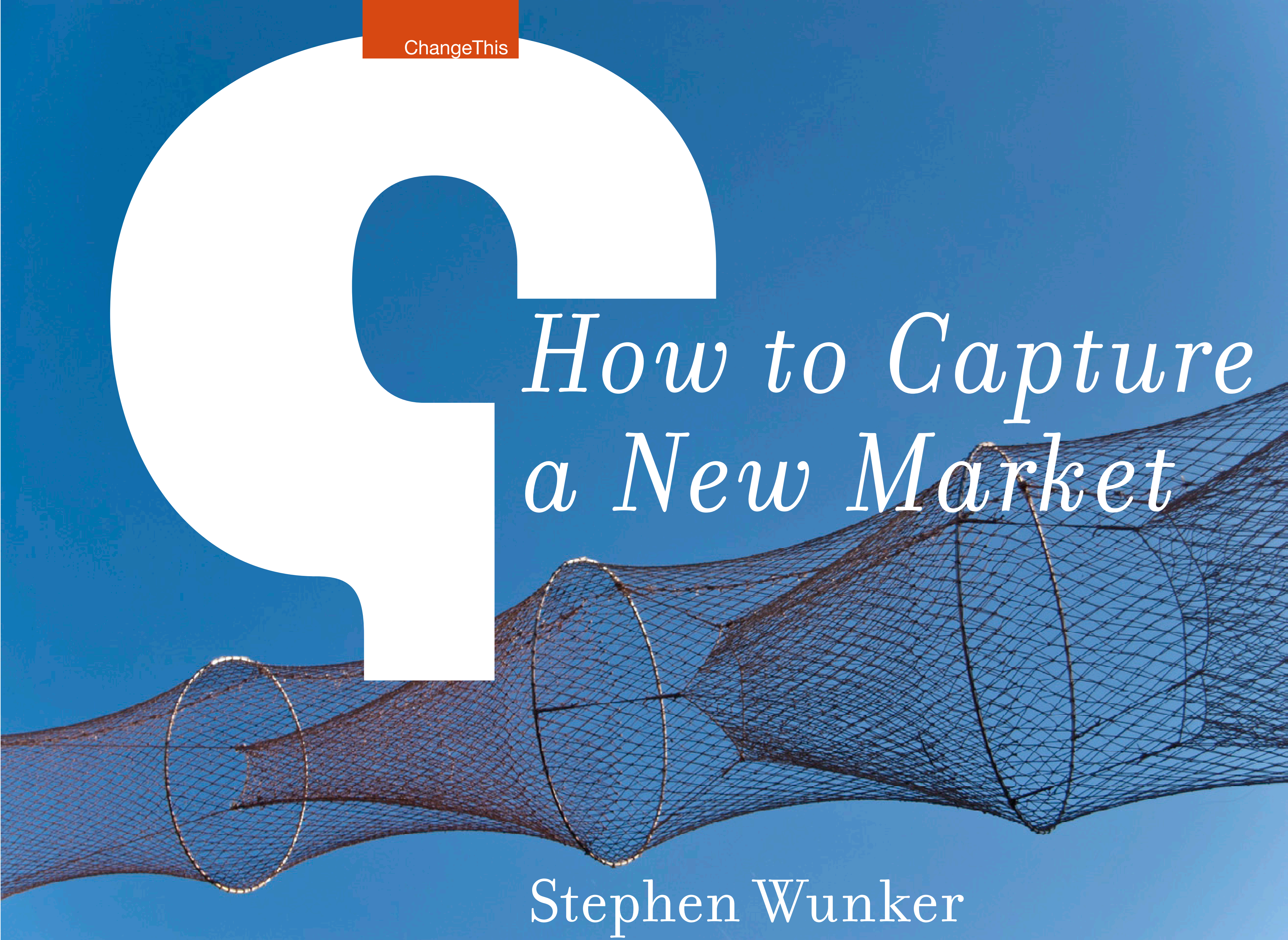

How to Capture a New Market

Stephen Wunker

John D. Rockefeller became a billionaire in 1916, when that was real money. Mark Zuckerberg is worth nearly $10 billion today, which is still pretty good. John Bogle turned around Vanguard, a sleepy money management company, with a new idea called index funds and made the firm a global leader in its industry.

What do they have in common? They captured new markets.

The world is stuffed with people who keep the economic machinery running, eking out 4% growth year after year. Good for them—mundane businesses like paper clips and taxi cabs make everyday life easy. But some people do much, much more. They power economic growth. About one-fifth of U.S. growth over the past two decades has come from new industries: wireless carriers, satellite TV, networking equipment and others. Another big chunk comes from new segments of old industries: extended stay hotel rooms, DVDs by mail, rent-by-the-hour cars, and so on. Strip out those growth sources, and the economy looks pretty boring. Is that your aim in life, to build a boring business? If so, please stop reading now.

Still here? OK, let's get to the juicy stuff. How do you capture a new market? There's a lot of traditional business strategy you need to throw out the window. New markets are too poorly understood and change too quickly for the standard approaches of graphing trend lines and computing market share. In this manifesto I lay out 10 approaches that work—for businesses and the people within them—when the market is fuzzy and in flux.

1. Think Slam Dunks Instead of Home Runs

Latent needs are all around us. Is your life perfect? I didn't think so. Sometimes people are over-served by what the market provides (I don't understand 99% of the functions in Excel) and oftentimes they're under-served or completely ignored. Life is full of unmet needs and moments of joy that are too fleeting. If you run a business today, some of these opportunities will relate to your company.

In 2000, I was responsible for developing one of the first smartphones. We spent a long time creating lofty designs for the product, which involved a lot of risky new technologies. During our team meetings a bunch of engineers kept sending each other notes over clunky two-way pagers. So annoying! Of course, it was also so telling if I had just looked at the situation the right way. We didn't need to make a complex and expensive product, just something that allowed people to send notes. The Blackberry came out around then. Its inventors clobbered messaging, rather than pondering all that a product could possibly do.

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2. *Find the Right Questions*

Innovations that open up new markets often don't stem from brilliantly creative solutions. Your CEO doesn't need to be Steve Jobs for your company to generate business breakthroughs (a lot of CEOs think they're Steve Jobs, but that's a different issue). The keys to creating new markets are usually dead obvious if you've crafted a really precise view of the challenge.

So get out of the conference room and find what causes people trouble. Don't identify new markets just by gut, because your gut feelings reflect how you perceive your world, not a customer's world.

Talk to real customers. Better yet, observe them. Because if you ask customers what they want, they'll focus on the market as they know it. Henry Ford reputedly said, "If I had asked customers what they wanted, they would have said a faster horse." Look keenly at what people are trying to get done, and what prevents them from doing those things better. Only then should you think through solutions to their problems.

3. *Keep It Simple*

Years ago, I created one of the first services to use your cell phone to find special offers in a neighborhood. The idea seemed so compelling, and eventually it was. Several companies, including Facebook and foursquare, are doing this now. But at the time it asked people to change engrained habits too much. Later, I helped build out one of Africa's leading cell phone networks, Celtel. That was pretty simple—it's a phone, and you take it with you. The business did crazily well. If you're asking customers to change behaviors, do it step by step.

Simplicity also rules inside corporations. Sometimes companies stew about what new ventures they should prioritize, and because they haven't set guidelines, they want to look at full-fledged business plans before they decide what they like. This process wastes time, and rejected plans get people disillusioned. Set some basic priorities. For instance, if you're in the hotel business, you're not going to buy a steel mill, but you might consider brokering stays in private homes.

Keep your to-do list short. A new venture has a million things to do. If you try to do them all at once, you'll accomplish nothing. Venture capitalists push their companies to focus on a couple key issues at a time. Small companies don't necessarily move faster than big companies, but they benefit from having fewer things to do at once.

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4. Compete Against Zamtel

While working with Celtel, I lived for a while in Zambia. One of our main competitors there was the state-owned telecom company, Zamtel. Life is pretty easy when your competition is Zamtel. I once had a service issue on a Zamtel line we used for Internet access, so I called the number they listed prominently in their phone book. It had been disconnected.

When ambitious people think about new ventures, they sometimes target sexy, well-established industries like enterprise software. Unfortunately, there are not many Zamtels in the software business. But, if you're going to compete against an industry incumbent, try to make sure it's a bad incumbent.

Alternatively, try to find a space that's uncontested. It's possible to build a good business adjacent to strong incumbents if you have a unique way to make money on the customers that those companies hate to serve. If Zipcar had competed with Hertz to rent cars to business travelers at the airport, it wouldn't have stood a chance. So it created a by-the-hour model of car rental to customers like young adults needing to pick up a car in the neighborhood for a quick grocery run. By the time Hertz woke up to the opportunity and created a similar business, Zipcar had locked up 80% of the booming new market and was valued at $1 billion.

5. Balance

In an environment where everything is changing fast and little is certain, success comes from balance. You need to learn voraciously about your marketplace and stay attuned to asymmetric threats while avoiding undue distraction. Particularly if you work for a big company or a venture capital fund that has some resources to spread around, you need a portfolio of opportunities to pursue with a mix of quick, easy wins and bigger, more speculative bets. You also need to balance the type of risks you're taking—all chances of success can't stem from a particular scenario playing out just as you think it will.

Think about the challenge as you might approach a personal investment account. If you're risking everything on a steep fall of the dollar next Tuesday, that may not work out so well. A stock picker will have a few investment theses, and she may own a mix of asset classes. She knows that some investments won't work out and plans accordingly.

6. Buy Vowels

On the TV game show Wheel of Fortune, contestants guess at consonants in a word puzzle to run up their pot of money. Sometimes, however, they spend $250 to buy vowels, reducing their uncertainty about what the puzzle says. Buying vowels is a great idea for new markets—spend a bit to learn. As venture capitalists (VCs) like to say, they are in the information acquisition business. When they find ventures that have lots of potential they double down on their bets, but they also abandon many investments quickly and cheaply.

Of the companies a VC will back, about two-thirds will be total write-offs. Yet VC firms tend to earn returns about 25% above their public company counterparts, which usually have a much higher success rate with their projects. The secret is to learn rapidly so you can fail fast, before you spend too much along a path that leads to doom. That way, you can invest more safely in risky ideas.

7. Build Alliances

Wonderful movies have been made about people singlehandedly taking on the world to prove a new idea. If this is your dream, snap out of it. Change results from alliances of people and companies.

I ran one of the first companies using cell phones as marketing tools. As the dot-com boom turned to bust, competitive rivalry became fierce. One of the best things I did was to bring the competitors into an industry association. Our battles were really not against each other, but against a marketplace slow to accept this new idea. As we collaborated to build awareness of new solutions and set industry standards preventing cell phone spam, we discovered that many of our efforts were actually complementary. Collectively, we changed customer attitudes far more than we ever might have done on our own. In the early stages of a market, your would-be competitors may be some your closest allies.

Building alliances does not mean you should rely on others to do your sales. As a new market gets going, direct contact between a venture and its customer is essential. You need to learn immediately, through firsthand experience, what works and what doesn't. Sales channels may tell a lovely story about how they can gin up your revenues (being salespeople, they're outstanding at telling nice stories). But ultimately new markets are a hassle for sales channels to develop, and they don't do much to help people meet their quarterly quotas. Channels are great partners after your company has proven itself. For the first sales, do them yourself.

8. Be Patient

New ideas are intoxicating. We think the world should be as enchanted by the concept as we are. If you ever feel this way, think about indoor plumbing. It took over 4,000 years from the invention of indoor plumbing until it caught on during the 19th century. Really, is your new idea better than indoor plumbing?

Indoor plumbing faced some big challenges. It required infrastructure such as sewage systems, and when new systems failed the consequences could get ugly. But the overall idea was pretty stellar. When evaluating the market for an idea, think carefully about factors like dependencies on others, whether decision-makers can act quickly, and the risks of the idea failing. It frequently pays to pick a small market where you can establish a foothold fast, rather than work through major issues in a big market. Patience pays off. if you win in the foothold, you'll have momentum going into the next target market and will be able to tackle it more speedily.

9. *Be Humble*

The world loves to celebrate visionaries. We think about their successes and feel confident that some super-beings can peer through the mists to chart the future. Yet most of these people got things wrong over and over again. Apple Lisa computer? Dud. Apple Newton? Ditto. Apple TV? The jury is out.

Repeatedly successful visionaries can conjure great ideas with wild enthusiasm, and then can look coldly at how their inventions actually register in the marketplace. They learn from what doesn't work, and they are comfortable with failure. If you must always succeed, you will never take risks and you will learn very little in your career.

10. *Get Things Started*

Facebook Founder Mark Zuckerberg is a multi-billionaire. What about Facebook's tenth employee? They ran quite similar risks, but with very different reward.

People hang back from starting things because they feel more courage when they see others in their boat. We become timid animals venturing into the sun only after the pack leader takes the first step. What a drag on the economy and our personal happiness! What child aspires to play a lifelong game of Simon Says?

People who start things not only get rewarded better, but they also feel fulfilled. Even if you fail, you will have done something you can recall proudly at the end of your life. Whether it's a business, a church group, or a bake sale, the person who gets the ball rolling makes an enormous difference.

New markets don't just create wealth; they change the world. Air conditioning, photocopiers, debit cards, and nose jobs—whatever the new market is, it's grown because people have found the idea valuable enough to pay for. Yet despite new markets being so critical, we screw up our approach to them by acting just as we do in well-established fields. Stop and reevaluate. **By adopting the right behaviors, we will succeed far better in an economy destined for ever-greater turbulence and change.**

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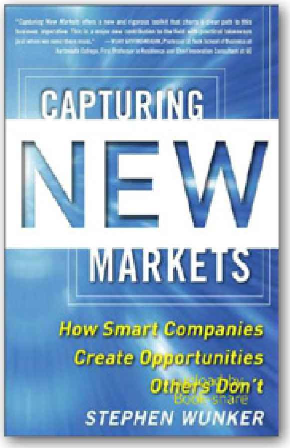

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ABOUT THE AUTHOR

Stephen Wunker is an entrepreneur and widely-published strategy consultant who has created successful ventures for his own companies and clients across six continents. He has led teams that developed some of the world's first mobile Internet devices, mobile commerce businesses, and mobile marketing campaigns. After earning degrees from Princeton, Columbia, and Harvard Business School, he became a long-time colleague of Harvard Professor Clayton Christensen in building out a consulting practice based on Christensen's research on disruptive innovation. Wunker now leads New Markets Advisors, a global firm dedicated to helping companies find, enter, and win in new markets. His new book is *Capturing New Markets: How Smart Companies Create Opportunities Others Don't*.

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