EUROPEAN VENTURE TOOLBOX

ENTREPRENEURIAL BEHAVIOUR

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This series is dedicated to communicating innovative and multi-disciplinary new research that advances theory and practice in *Entrepreneurial Behaviour*. The series is focused on expanding the scope of *Entrepreneurial Behaviour* theory and analysis and enriching practice by encouraging multi-theoretical, multi-cultural and multi-disciplinary approaches.

Key issues explored in *Entrepreneurial Behaviour* include cognition, decision-making, organisational behaviours, and identifying, creating, and exploiting opportunities concerning new products, services, processes, innovations or ventures from an entrepreneurial perspective.

The primary focus is on the study of entrepreneurs, small and medium enterprises, and family businesses, with a secondary focus on entrepreneurial and innovative behaviours in other forms of organisations, such as non-profits, corporations, and public administrations.

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The Path for SMEs to Grasp and Defend Opportunities

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PREFACE

Dear reader,
This book is written by a theoretician and a practitioner in Europe. Despite all the manuals around, many first time entrepreneurs don't bring practicality into their passion, and fail for so many reasons. There are patterns to these, and many are avoidable, generic pitfalls, while others are very Europe-specific.

We bring experience into the equation and try to explain all the basics to go for, as well as all that has to be avoided. No matter if you are a student, first year entrepreneur, or practitioner in the field: in the following pages you'll find many strategic "tools" which, both in theory and practice, will help you better understand how to grasp and defend the entrepreneurial opportunities present in your market of choice.

Our objective is to:

1. Increase chances of success of first time European entrepreneurs via a practical guide to new venture creation tailored to today's context in Europe
2. Enable the reader to understand practice directly via emblematic case studies
3. Provide insights on the entrepreneurship phenomenon as a whole, mainly applied to European markets in crisis, via new theoretical advances mixed with practitioner experience.

Many European entrepreneurs, given the abundance of influential American companies and books, are prone to the rhetoric of company building based on the following factors, among others later discussed:

- fast-growing startup survivorship bias: seeing a few companies scale does not imply a general possibility for many
- abundance of circulating capital bias: both end customers and investors do not have the budget magnitude that American ecosystems developed
- market addressability restrictions: due to language and regulatory aspects, the market your service can access is not the Europe-wide ecosystem

– difference in European fiscal systems: location of company founding and its ecosystem is fundamental for the business viability in the first years from launch.

Let us define European entrepreneurship: given its internal diversity, as it currently stands it can be mainly defined in contrast to US theory and practice on the points mentioned above. However, what we can do is talk about the *European objective*, which is to maintain and expand upon its current points of leverage, such as being the largest Gross Domestic Product (GDP) block in the world.[1] In order to do this, the major backbone of EU entrepreneurship, currently Small-to-Medium Enterprises (SMEs), needs to find novel structures to survive and thrive in crises. For this, we provide frameworks for the European entrepreneur, to let her/him focus on consolidating strategies, and only then to proceed toward grasping wider financial opportunities.

Our unique value:

1) *Part I*: a series of conceptual chapters comprising examples, giving you an overarching understanding of what business value actually is, how it is created, and how it is conveyed. In particular:

   - *Chapter 1*: The rationale for entrepreneurship, why this is close to us, and what model can navigate us through structured business opportunity discovery and implementation
   - *Chapter 2*: customer-orientation and problem-scouting for formulating a business idea
   - *Chapter 3*: identifying value gaps, what solutions exist and which are feasible with the current team and resources, describing the characterized value in a narrative
   - *Chapter 4*: the importance of testing for payment with a first product prototype to probe for value perception according to the customer
   - *Chapter 5*: how can we structure our business in terms of who is the perceived value for, when, and in which context?
   - *Chapter 6*: how do the concepts of entrepreneurship learned so far compare in Europe and US in detail?

2) *Part II*: a deep case study on a practical business idea and all the questions that come to mind, narrated from the perspective of two fictional characters who are young first year entrepreneurs, as well as how to go about beating

the initial mental fog and proceed to execution; in other words, all the pro and cons related to turning an initial business idea into practice

3) *Part III*: several "practitioners' notes," which discuss pitfalls and hands-on wisdom. Concise as possible, they are meant as off-the-shelf references readable when necessary, on different sequential topics, specifically:
   - *Practitioners' note 1*: why people start companies; what impact is intended; company aim characterization
   - *Practitioners' note 2*: understanding where to start the iterative business development process in the market; the comparison between solution-first, problem-first, and niche-first approaches
   - *Practitioners' note 3*: identifying what value actually is; aiming for its quantification in time-cost factor reductions; the importance of focusing on high-billable priorities
   - *Practitioners' note 4*: understanding people as the central element of any business, and how relationships are built; the importance of rapport creation and responsiveness; the first 3Cs filter for hiring
   - *Practitioners' note 5*: the importance of a financial urgency sense; estimating business viability on the basis of customer acquisition costs and customer lifetime value; understanding KPI construction
   - *Practitioners' note 6*: understanding return and risk as the fundamental inseparable pair to be estimated in all business decisions; concept of opportunity cost
   - *Practitioners' note 7*: the basics of selling, identifying the main decision makers in a sale; the importance of customer qualification
   - *Practitioners' note 8*: the traditionally known phases of investment and its prerequisites
   - *Practitioners' note 9*: the mental models and approaches necessary to drastically improve decision-making quality and quantity.

May you enjoy reading as we enjoyed writing. And above all, may you proceed to execution and create a successful European venture.

Yours faithfully,
Nicholas Kirk & Lamberto Zollo

NOTE

1. The following references provide evidence for the European Union alone; the aggregation of other countries in geographical Europe increases such estimate: https://trade.ec.europa.eu/doclib/docs/2013/december/tradoc_151969.pdf; https://ec.europa.eu/trade/policy/eu-position-in-world-trade/.

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We are very grateful to all our friends and family who provided moral support and preliminary interest toward this book: we hope to meet and exceed your expectations.

PART I

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1

THE RATIONALE FOR ENTREPRENEURSHIP AND A STRUCTURE TO NAVIGATE THROUGH ITS UNCERTAINTY

Concepts We Need

- *Entrepreneurship*: the art of undertaking and managing risks in a proactive way to exploit market opportunities and gain profit.
- "Traditional" *SMEs*: micro-, small-, and medium-sized enterprises aiming at maintaining their well-defined business activities stable and sustainable.
- *Startups*: product-oriented ventures (also known as *innovation-driven enterprises*) with a scalable business model, which usually focus on growth factors enabled by fundraising.
- Untapped market opportunities, intended as latent and unexploited occasions to add value for which current existing businesses are not providing a service or product for.
- Soft versus hard skills, that is, the two categories of interpersonal and technical abilities respectively, which are both necessary within the founding team.
- Partnerships, intended as the ties with other companies which contribute to some parts of the process in which your value proposition lies, so that you can provide a full service/product (*i.e., an end-to-end offering*).

Concepts We Learn

- To interpret entrepreneurship as a cross-disciplinary field.
- To use psychological and sociological lenses to understand entrepreneurship.
- The importance of discovering latent opportunities in the market to gain an immediate competitive advantage.
- Customers' expectations and needs – how to individuate and meet them.
- *Problem-scouting* as opposed to problem-solving: it is necessary to operate a mentality shift from what has been learned so far in companies and in universities, focusing on need discovery (problem-scouting) as opposed to solution creation (problem-solving). Remember: need understanding comes first.
- Get familiar with entrepreneurs' main ways of thinking and approaching opportunities and problems.
- Understand how to dynamically move from an initial idea to the entrepreneurial opportunity.

As in every discipline of social sciences, the field of entrepreneurship – which is deeply embedded in the streams of management and marketing – relies on theoretical foundations that have to be consistently applied to our reality. How is it possible to describe the actual economic and business world through a theoretical approach? Many say that business cannot be learned, and that it cannot be put into models.

Actually, the real world is made of people, enterprises, markets, institutions, regulations, and many other actors/elements (i.e., socio-economic players) that represent, at the same time, either a huge opportunity for emerging entrepreneurship or a plethora of barriers and constraints that are difficult to cope with. These can be conceptualized at least to some extent. Traditionally, the theoretical perspectives used to advance, grow, and make the entrepreneurship field sustainable rely on psychology (Fig. 1) and sociology (Fig. 2).

Both researchers and practitioners (i.e., entrepreneurs, managers, marketers, etc.) might benefit from psychology to better understand the dynamics and mechanisms describing the cognitive processes of all the actors (what we called "socio-economic players" in a given market) involved in the entrepreneurship phenomenon, particularly at the individual level of analysis; think about all the biases affecting the way we choose anything on a daily basis:

Fig. 1. Psychology (*Reflect Through*).

- Why does a loss of money have a more negative impact than the positive impact of the same amount of money gain in terms of satisfaction (i.e., *loss aversion theory*)?
- Why are our emotions, feelings, and intuitions (System 1) often in contrast with our rationality and deliberate thinking (System 2) and decision-making (i.e., *dual system theory*)?

Fig. 2. Sociology (*Crossing Intersection*).

- How is it possible that people obstinately continue investing their money, time, and effort in investments/relationships that have already failed because they have invested so far too much or are compromisingly committed (i.e., *sunk cost fallacy*)?
- Why do first insights and initial stimuli exposure influence people's consequent decision-making and behavior (i.e., *priming effect*)?

Take a moment to consider how these are real world issues. In this book, we will often face both practical and theoretical aspects of psychology which in Europe have a strong bearing: different mentalities make it difficult to commercialize products, build trust, and communicate in general. Biases and models need to be understood to help value discovery, creation and delivery.

Psychology allows us to have a better understanding of human behavior and decision-making processes: no matter if we take an organizational perspective by focusing on internal stakeholders' decisions and action (i.e., *leader-members exchange theory*); or a consumer-based perspective, focused on the way our potential consumers/customers' think and behave in their purchase experience (i.e., the *consumer journey* paradigm, which we will focus on later). It'll be very clear in the following chapters that entrepreneurs as well as managers and marketers need to carefully perceive their stakeholders'[1] and above all customers' minds: if you don't understand well how they might think and behave, how will you let them spend money for your product or service?

In the European context, how can we understand such a diverse set of customers, for example, in terms of risk propensity? How can we perceive how trust is built with individuals? Think about a brand, product, or service "positioning" strategies: marketers need to craft a unique image of the brand in the consumers' mind (Ries, Trout, & Kotler, 2001), so that whenever consumers think about the related need they immediately think about that specific brand. How is this achievable in a heterogeneous market?

Sociological theories make it possible to define, analyze, and foresee the behavioral patterns describing human social relations, in our case related to business and economics. This is crucial to understand effectively how all the stakeholders involved in the creation of a new venture might interact, cooperate, compete, thereby creating a complex network of social relations. Actually, business is to be seen as an ecosystem in which people interact to add value (in economic, environmental, and social terms). Everybody contributes, in theory without thinking of it as a zero-sum game, but as a positive sum game. That is why we talk about value creation/addition, and not simply value transmission.

One of the most important focuses of our toolbox described across the book's chapters is the importance for an entrepreneur to *constantly and progressively discover new opportunities thanks to market feedback*. In other words, find people's unfulfilled needs, unexpected desires, and most of all latent demands: the resulting business idea this way will always be original, and differentiated from the already existing alternatives offered by competitors in a specific market. The "Iceberg metaphor" allows to better comprehend why a psycho-sociological approach is important to grasp a successful entrepreneurial opportunity, as illustrated in Fig. 3:

Already expressed customers' needs or demands are likely to be fulfilled, because often blatantly apparent in the markets. Most likely companies will exist already whose solutions are perfectly matching the customers' needs and expectations (the figure in fact depicts a falling arrow at the top of the iceberg representing a negative entrepreneurial opportunity that will not be sustainable in that market). However, latent desires might be a great source of business (at the bottom of the figure, you might see the "latent" and untapped area of the iceberg).

Think about successful streaming on demand companies that effectively exploited the *servitization* paradigm: 10 years ago in Europe we weren't

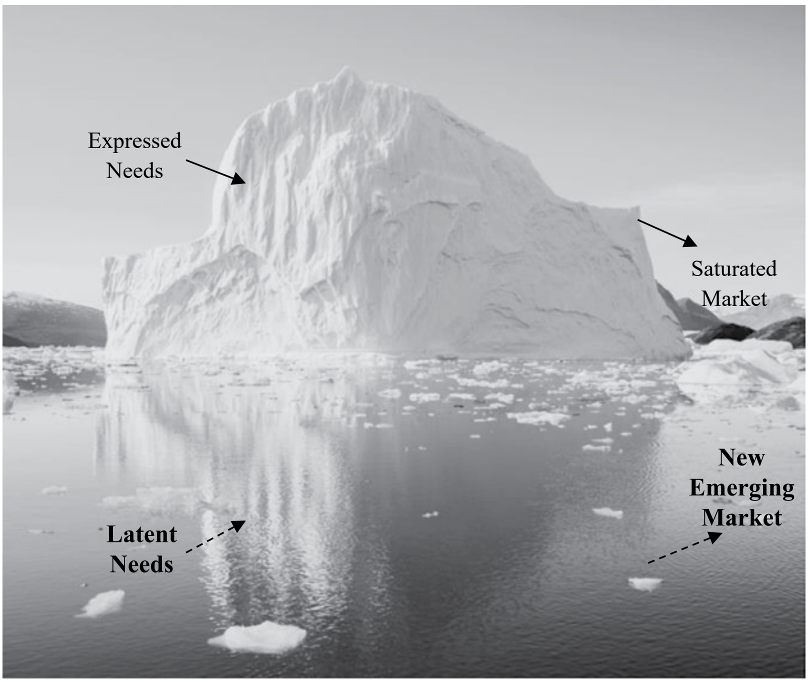

Fig. 3. The Iceberg Metaphor.

aware of the possibility/opportunity to easily have on all our mobile and smart devices our favorite songs, albums, and artists always updated, recommended, and shareable via playlists on a daily basis (without the need to download anything or buy a physical MP3 player). European companies like Spotify and Tidal foresaw users' latent need with regards to music listening and provided them with a new solution. It is safe to say a new market has been created.

Similarly, Dutch entrepreneur Geert-Jan Bruinsma created at the end of the twentieth century a website able to connect hotels and potential guests who can now autonomously book their own holiday without further intermediaries: that's the main business idea underlying Booking.com that we all know and frequently use nowadays. Think about how this company has dramatically changed the travel agency scenario, eventually becoming the leader of the online travel agency market: a simple digital platform with safe online transactions, low fees (just on the provider side), a huge possibility of increasing a hotel's visibility thanks to the rating/ranking mechanism, and a high users' autonomy of choosing their most convenient accommodation.

But how is it possible to seize these emergent, latent needs to create a novel contribution in the market? *This book's ultimate goal is to convince you that by having a customer-centric approach focused on the market's past, present, and future trends, it will be possible to grasp economically viable and innovative entrepreneurial opportunities*. Moreover, one of the central points of the book will be the emphasis placed on the *importance of stakeholders' feedback* to continuously adapt your initial business idea to their specific requirements, directly testing your solution against the market (i.e., *product-market fit*, which we'll explain in the following chapters).

The present book introduces concepts through the eyes of two main fictional characters, our young and ambitious students who become entrepreneurs and guide us through all the steps of creating a new venture within contemporary Europe: Diane and Alex (see Figs. 4a and b). Let's imagine them as two young friends who recently graduated from a European University of Economics and Management. After several team projects together, they are eager to combine marketing, business administration, and strategic management, by taking an active role in the world by creating a new venture, thus becoming *entrepreneurs*.

On the one hand, Diane is particularly attracted to everything that involves marketing: consumer behavior, segmenting/targeting/positioning, branding, promotion, retailing, and social media marketing. Alex, on the other hand, has always shown a huge interest in coding and new technologies: big data, Industry 4.0, digitalization and *servitization*[2] of business processes and platforms.