Markets and Industries:
What's the difference and why does it matter?

By John Mullins

Many say it's a tough time to be an entrepreneur. But any time is a tough time (no one ever said it was easy), and 2010 looks very good to me:

• Resources are cheap, from real estate to supplies to people and more

• Better times are ahead and it pays to be battle-tested and ready to ride the coming wave, whenever it starts

• Big businesses are pulling in their horns, clearing the way for entrepreneurs with good ideas

And what's top of the list of today's good entrepreneurial ideas? The latest fad in the entrepreneurial and venture capital world seems to be clean-tech. From solar panels to fuel cells to electric vehicles, investors can't seem to deploy their money fast enough.

Let's step back for a moment

Before too many of today's aspiring entrepreneurs rush out and start

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clean-tech companies, though, let's step back for a moment and ask a couple of fundamental questions that are too often overlooked.

First, what's a market? A market consists of a group of current and/or potential customers having the willingness and ability to buy products – goods or services – to satisfy a particular class of wants or needs. Thus, **markets consist of *buyers*** – people or organizations and their needs – **not *products***. One such market, for example, consists of business people who get hungry between meals during their workday. We'll call this the market for workplace snacks.

Second, what's an industry? **An industry consists of *sellers*** – typically organizations – which offer products or classes of products that are similar and close substitutes for one another. What *industries* serve the *market* for workplace snacks? At the producer level, there are the salty snack industry, the candy industry, and the fresh produce industry, to name but three. There are also industries providing the distribution of these products to workplaces, including the supermarket industry, the restaurant industry, the coin vending machine industry, the coffee bar industry, and so on. Clearly, these industries offer varying bundles of benefits to hungry workers. Some of these industries are more attractive than others to would-be entrants seeking to serve the workplace snack market.

Why does the Market-Industry distinction matter?

Why is the market-industry distinction important? Because judgments about the attractiveness of the *market* one proposes to serve may be very different from judgments about the *industry* in which one would compete. This should not be – but often is – surprising, for the questions asked to assess market attractiveness are different from those for industry attractiveness. Consider the debacle we now know as the dot-com bust.

In the late 1990's entrepreneurs – not to mention the venture capitalists who funded them – stumbled over one another in a mad race for first-mover advantage in the dot-com space. But what did they mean by *space*?

Did they mean the *market* of individuals and organizations who would use the Internet for shopping, information, communication, and other purposes? In hindsight, we now know that this *market* was and is extremely attractive: it was fast growing and would soon include most segments of the population, as the so-called digital divide shrunk rapidly.

Or did they mean *industries:* Internet service providers, e-tailers, e-publishers, and so on. In hindsight, we now know that many industries on the Web were and still are deeply unattractive, because numerous new competitors can easily enter, differentiation is difficult to establish, and competitive advantage is hard to sustain with competitors only a mouse-click away.

Unfortunately for the many dot-com entrepreneurs whose ventures failed despite being plied with cash from willing investors, the recognition of this crucial distinction came too late.

Assessing Markets and Industries (and let's not forget about entrepreneurial teams)

So, if market and industry attractiveness are both important, how should each be assessed?

Opportunities are best understood in terms of three crucial elements: markets, industries, and the one or more key people that make up the entrepreneurial team. The seven domains model (See Figure 1) articulated in *The New Business Road Test: What Entrepreneurs and Executives Should Do Before Writing a Business Plan* brings these elements together to offer a new and clearer way to answer the crucial question that every aspiring entrepreneur must ask him – or herself every single morning: "Why will or won't this work?"

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The model offers a better toolkit for assessing and shaping market opportunities and a better way for entrepreneurs or entrepreneurial teams to assess the adequacy of what they themselves bring to the table as individuals and as a group.

At first glance, the seven domains model appears to simply summarize what 'everybody' already knows about assessing opportunities. So it does. Upon more careful scrutiny, however, the model goes further to bring to light three subtle but crucial distinctions and observations that most entrepreneurs – not to mention many investors – overlook:

• Markets and industries are not the same things.
• Both macro and micro-level considerations are necessary. Markets and industries must be examined at both levels.
• The keys to assessing entrepreneurs and entrepreneurial teams aren't simply found on their resumes or in assessments of their entrepreneurial character or drive.

The Seven Domains of Attractive Opportunities

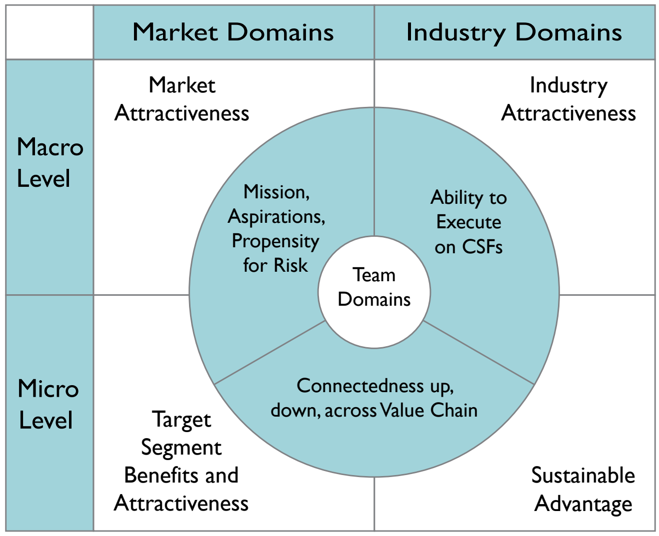

Figure 1
Source: Excerpted from John Mullins, "The New Business Road Test: What Entrepreneurs and Executives Should Do Before Writing a Business Plan," London: FT/Prentice Hall, third edition 2010, £24.99
www.newbusinessroadtest.com www.johnwmullins.com

Moreover, the model's seven domains are not equally important. Nor are they additive. A simple scoring sheet or checklist won't do. Worse still, the wrong combinations of them can kill your venture. On the other hand, sufficient strength on some factors can mitigate weaknesses on others. Attractive opportunities – like those that became today's Google, Nike and Starbucks – *can* be found in not-so-attractive markets and industries.

As the seven domains graphic shows, the model is comprised of four *market* and *industry* domains, including both *macro* and *micro* levels, and three additional domains related to the entrepreneurial *team*. These seven domains that emerged from my research ('everybody' knows at least some of these, too, but I found most don't think of them in this way) address the central elements in the assessment of any market opportunity:

• Are the market and industry attractive?
• Does the opportunity offer compelling customer benefits as well as a sustainable advantage over other solutions to the customer's needs?
• Can the team deliver the results they seek and promise to others?

Why *won't* my idea work?

In examining *your* opportunity through the seven domains lens, concerns will inevitably crop up: the potentially fatal flaws that can render your opportunity a non-starter. The key task in answering the crucial question, "Why won't my idea work?" is to find any major flaw that cannot be resolved, the opportunity's Achilles' heel. Thus, the crucial things to look for on the downside are elements of the market, industry, or team that simply cannot be fixed by shaping the opportunity in a different way.

If flaws that cannot be fixed are found, the best thing to do is to abandon the opportunity at this early stage and move on to something more attractive. Persisting with a fundamentally flawed opportunity is likely to have one of two outcomes, both of which are exceedingly unpleasant:

- Best case: The best and most likely outcome is that experienced investors or other resource providers – suppliers, partners, and so on – will identify the flaws that you have ignored and refuse to give you the resources you need, even though you have gone to great lengths to craft a business plan that papers over these flaws. Fortunately, their refusal will save you the agony of investing additional months or years of your life in running a "lousy business," though your efforts in preparing and pitching your business plan will have been wasted.
- Worst case: The second, though less likely, outcome of pursuing a fundamentally flawed opportunity through the business planning stage is that, in spite of the flaws, you are able to secure the resources you need and actually start the business. As some point, the flaws will rear their ugly heads, and you'll need to scramble to recast the business before it goes under. Some readers of this article may find themselves in this unhappy predicament today, and it's not a pretty place to be.

Why will my idea work? Can my opportunity be shaped?

The good news in all this is that opportunities are not static. They can be shaped in many ways. Potentially fatal flaws are there to be fixed. You can choose a different target market, one more receptive to your proposed offering. The offering can be adapted to make it better fit what the market needs. Decisions can be made to pursue the opportunity at a different level in the value chain – as a distributor, rather than retailer or manufacturer, for example – if a different industry setting would be more hospitable. Adding additional individuals who can help the team deliver on the critical success factors or who

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bring appropriate connections up, down, or across the value chain can strengthen the entrepreneurial team.

Will history be repeated in the clean-tech arena?

Clearly, there is abundant demand for cleaner, more sustainable solutions to a variety of everyday activities that characterize our lives. Equally clearly, the *market* for many clean technology solutions is attractive. But what about the various *industries* in which such solutions are to be produced and marketed? Will entrepreneurs and investors once again overlook the market-industry distinction? Only time will tell. But aspiring clean-tech entrepreneurs who rush into writing a business plan without first assessing their opportunity in seven domains terms do so at their peril. A new business road test for your clean-tech idea – or one in any other market and industry setting – will serve you well.

About the author

John Mullins is an associate professor of management practice at London Business School and author of "*The New Business Road Test: What Entrepreneurs and Executives Should Do Before Writing a Business Plan,*" third edition 2010. He is also co-author (with Randy Komisar) of the widely acclaimed "*Getting to Plan B: Breaking Through to a Better Business Model,*" 2009.