

## Lesson 2: Is there really a market?



By [Allon Raiz](#)

13 Mar 2020

In this series #20Lessons20Years, Allon Raiz, CEO of Raizcorp, shares 20 of some of the most important lessons he has learned using a sequence that mirrors the typical stages of any entrepreneurial journey - from ideation through to scaling a business.



Allon Raiz

In his book *The E-myth Revisited*, Michael E Gerber aptly uses the expression “entrepreneurial spasm” to describe the reasons behind many so-called entrepreneurs entering the business fray.

The individual experiences one or two bursts of “demand” for a product or service and interprets this as a market signal. The most common source of these “signals” is the individual’s friends and family who may, out of some sort of loyalty, provide the first order or orders for the product or service. They may even overpay.

Many would-be entrepreneurs also make the assumption that every problem that can be solved by a product or service amounts to a sustainable business.



#20Lessons20Years: Lesson 1: Am I really an entrepreneur?

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One could – quite comfortably – describe a cold toilet seat in the middle of winter as a problem that many people would love solved. However, there is a miniscule subset of people who would be prepared to pay for the installation and running costs of an electrically heated toilet seat for their home or office.

## **Are people prepared to pay?**

Aspiring entrepreneurs erroneously view a market as a function of a perceived problem without considering whether people would in fact be prepared to pay for the cost of solving that problem.

It is only in instances where there are a significant and continuous number of people who would be prepared to pay the right price for a problem to be solved or minimised that there really is a sustainable market.

Business magazines and books are filled with stories about the likes of Steve Jobs who were market creators, in other words, someone who convinces the market that they need something they didn't even know they needed.

Henry Ford reputedly said, "If I had asked people what they wanted, they would have said faster horses." And while it may be true that Jobs and Ford were market creators, the real stories behind these iconic successes are far more complex and nuanced...The cost of educating a market is incredibly high and, very often, the company who is doing the educating ends up being leapfrogged by a new market entrant which leverages on the groundwork that has been laid and ends up crushing the "educator" company.

## **Be market creators**

To illustrate this, the Sony Betamax was introduced to the market in 1975 as the first commercially available video recorder. Betamax spent an enormous amount of money educating the market about the benefits of personal video recording and, less than two years later, JVC announced the VHS format to compete head-to-head with the Betamax.

VHS entered the newly educated market in the slipstream of Sony with what is commonly viewed as a technically inferior product but at prices which undercut Sony's. The Betamax-VHS wars ensued and, by 1987, the VHS format dominated the US market until the arrival of the DVD a decade later. Being the first to market therefore did not give Sony the advantage.

## **Assess the demand and market**

Companies that intend on scaling also need ask the question of whether the demand for their product or service is prolific in many markets or just peculiar to a single market based on specific market conditions that would be hard to replicate elsewhere.

Major considerations include cultural, economic, geographic and even historical conditions. Even the highly publicised mobile money service Mpesa has not spread as prolifically and quickly as many different financial organisations predicted (they closed their doors in South Africa a few years ago).

The second lesson I'd like to share from my last 20 years at Raizcorp is the importance of taking the time to honestly assess the market size, the ability for that market to pay the right price, and what the right time is to enter the market. Too early and you spend too much money educating the market. Too late and you generally enjoy lower margins in a market that is already filled with numerous competitors.

*Compiled by Allon Raiz, CEO of Raizcorp, this op-ed forms part of a 20-part series titled "20 lessons over 20 years"*

## **ABOUT ALLON RAIZ**

Allon Raiz is the CEO of Raizcorp. In 2008, Raiz was selected as a Young Global Leader by the World Economic Forum, and in 2011 he was appointed for the first time as a member of

the Global Agenda Council on Fostering Entrepreneurship. Following a series of entrepreneurship master classes delivered at Oxford University in 2014, 2015 and 2016, Raiz has been recognised as the Entrepreneur-in-Residence at the University of Oxford's Saïd Business School.

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