



Think Better, **Think Austrian.**

Volume One

Understanding The Mind Of The Customer

ECONOMICS
FOR ENTREPRENEURS

Go beyond best practices and reach new
levels with Austrian economics. Visit E4Epod.com

Introduction

E4E is a project – a project that aims to help you, the entrepreneur.

It's a strange word, entrepreneur. In the original French it means something like "someone who undertakes a task". Today it's come to mean someone who is in business to:

- ✓ Bring something – a product or service – that's new and better to a customer.
- ✓ Make the customer experience so desirable and enjoyable that there will be repeat business.
- ✓ Continue to look for ways to make the product or service better and better.
- ✓ Make a profit, which enables the business to keep growing.

In Austrian economics, we recognize that entrepreneurs are economic heroes - they try to make other people's lives better, via excellent service, high quality products, innovation and value.

Entrepreneurs are found in start-ups, small businesses, value-creating roles at corporations, freelance and individual contractor roles, and on innovating teams everywhere. Our E4E project aims to help them all.



Put Austrian Economics To Work For Your Business

Principles and core concepts we explore:

- ✓ **Subjective Value** – how the customer feels about the entrepreneur's proposition or offering – is the key to value creation and profits. We understand subjective analytics.
- ✓ **Empathy** – getting inside the customer's head to fully appreciate their wants and needs – is the entrepreneur's most important tool. We can provide empathic diagnostics.
- ✓ **Resources** - Customers and their environment are continuously changing. We have tools for flexibility in organizing and resource allocation to help you manage.
- ✓ **Uncertainty** - a permanent condition for entrepreneurs. We have tools to manage uncertainty.

At E4E, we aim to help those who help others.



To do so, we bring definitive economic knowledge and the tools to apply it. We equip entrepreneurs with a better mindset, and a better toolset.

Meet The Economists

Better than Business School.

Austrian economics is a logical, clear and rational way of thinking about subjective value and how it's created. It's both a discipline and a process. Austrian economics sees the entrepreneur as the driving force of innovation, and subjective value as the source code for marketing.

Understanding Austrian economics, and the entrepreneurial dynamism inherent in it, can take you beyond the historical best practices taught in business school, to a new level of unique resource assembly, unique brand positioning and unique insights for customer and consumer relationships.

Hunter Hastings

Economist, venture capitalist, and lifelong advocate for liberty, economic freedom, and individual entrepreneurship. Hunter supports E4E to demonstrate how to apply the principles of Austrian economics to their own businesses.



Per Bylund

Per is a Fellow of the Mises Institute and Professor of Entrepreneurship and Free Enterprise in the School of Entrepreneurship at Oklahoma State University. His research focuses in entrepreneurship, strategic management, and organizational economics.

Peter Klein

An American Austrian School economist, professor of entrepreneurship at Baylor University's Hankamer School of Business and senior research fellow at the Baugh Center for Entrepreneurship and Free Enterprise.



The Customer's Means-Ends Ladder

A mental model for understanding customer motivations.

Step 1: Start at the bottom with contact points.

Identify the key contact points where you, your product or your service meet the customer.

Step 3: Identify the functional benefits.

"What's in it for me?" - benefits of choosing these features/attributes.

Step 5: Identify the highest value the customer is seeking.

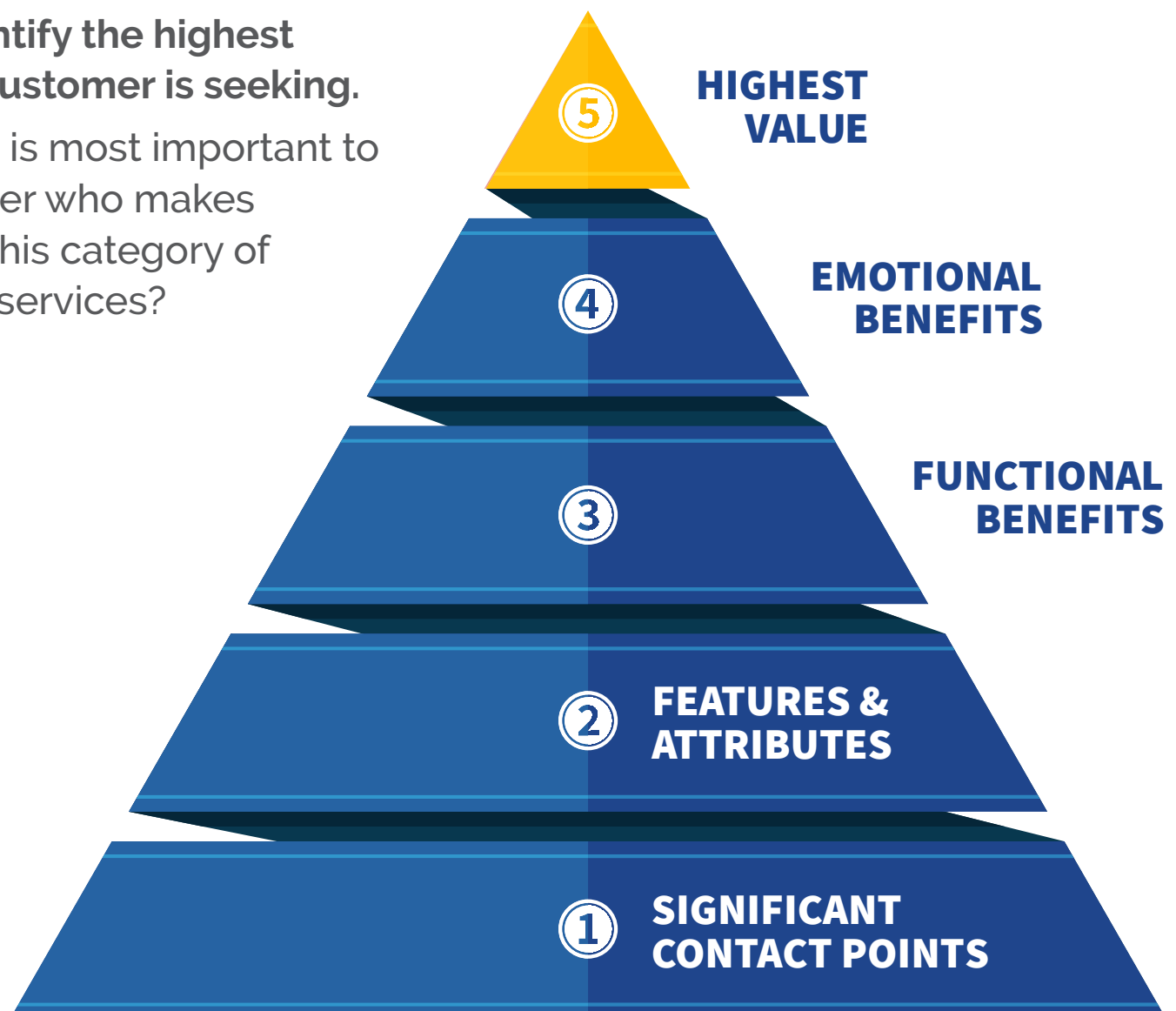
What value is most important to the customer who makes choices in this category of goods and services?

Step 2: Identify the features and attributes the customer perceives.

Tangible features and inherent attributes to which the customer allocates importance.

Step 4: Identify the emotional benefits.

What consumer feelings result from these functional benefits?



Using The Means-Ends Ladder

How to gain insight into customer motivations.

Economics helps entrepreneurs in a very practical sense by shining a very bright light on human motivation.

In economic terms, people act. They do things. And when they do things, they always have purpose in mind. They are goal-oriented. The entrepreneur's job is to figure out how to help customers achieve a goal that they already have in mind.

Thinking about this principle in simple terms helps entrepreneurs develop a deep understanding of customer value chains.

Why for example, do people choose to drink coffee? It doesn't just happen. People raise a coffee cup to their lips because they want to enjoy the taste. Or maybe to give themselves a caffeine boost. Or perhaps they are drinking coffee in a social context and they want to enjoy the shared experience. Economists are always thinking about the customer's goal in taking a certain action — and entrepreneurs can benefit from thinking the same way.

How and why do people decide on their ends?

Economists — and entrepreneurs — don't judge. We just want to find out what ends the customer is pursuing. And how behavior might change if circumstances change — for example, if prices rise, the customer might buy less or stop buying altogether.

How can entrepreneurs find out about what motivates customers to pursue certain ends and use certain means?

By immersing themselves in a market — like the consumer market for coffee as a beverage — and thinking about it from all angles: psychology, economics, history, culture, fashion, supply chain, marketing. Like Howard Schultz observing coffee shop behavior in Milan as a precursor to launching Starbucks in the US. He deduced from his observations what Americans might derive from a similar experience if he provided it.

Using The Means-Ends Ladder (continued)

How to gain insight into customer motivations.

How do entrepreneurs develop the appropriate skills, capabilities and knowledge?

Not from reading books, that's for sure. It's instinct plus tools, like the Means-Ends Ladder described above. It's the tool that helps entrepreneurs understand that they are not selling — and the customer is not buying — coffee, but an experience.

Entrepreneurs exercise judgment, and try to develop insights, but can never achieve certainty.

Data might help but it's not infallible. Eventually, the entrepreneur must decide to “go for it” without certainty of being right. It's the “plunge” decision. Learning, big data, and surveys are inputs, but they can't make the decision; only a human can.

That's why economists refer to uncertainty — it's the situation all entrepreneurs face.

You never know the future outcome until you try. The entrepreneur must be flexible in exploring the customer's ends and means. Uncertainty rules.

The skillful entrepreneur links the proximate product — the coffee — to the desired experience — the “third place” experience as Starbucks calls it — in a convincing and persuasive manner.

This requires exploration and experimentation to get it right. It's never obvious.

Experience can help. In the US, the average age of the first-time entrepreneur is mid-to-late 40s.

Experience in an industry and lived experiences are helpful. Intergenerational sharing of experience — like finding a mentor — can also contribute the experience you don't have.

Entrepreneurship is not rocket science.

Know your market, know your customers, and trust your judgment and your instincts.

Chapter 2:

The Subjective Value Cycle

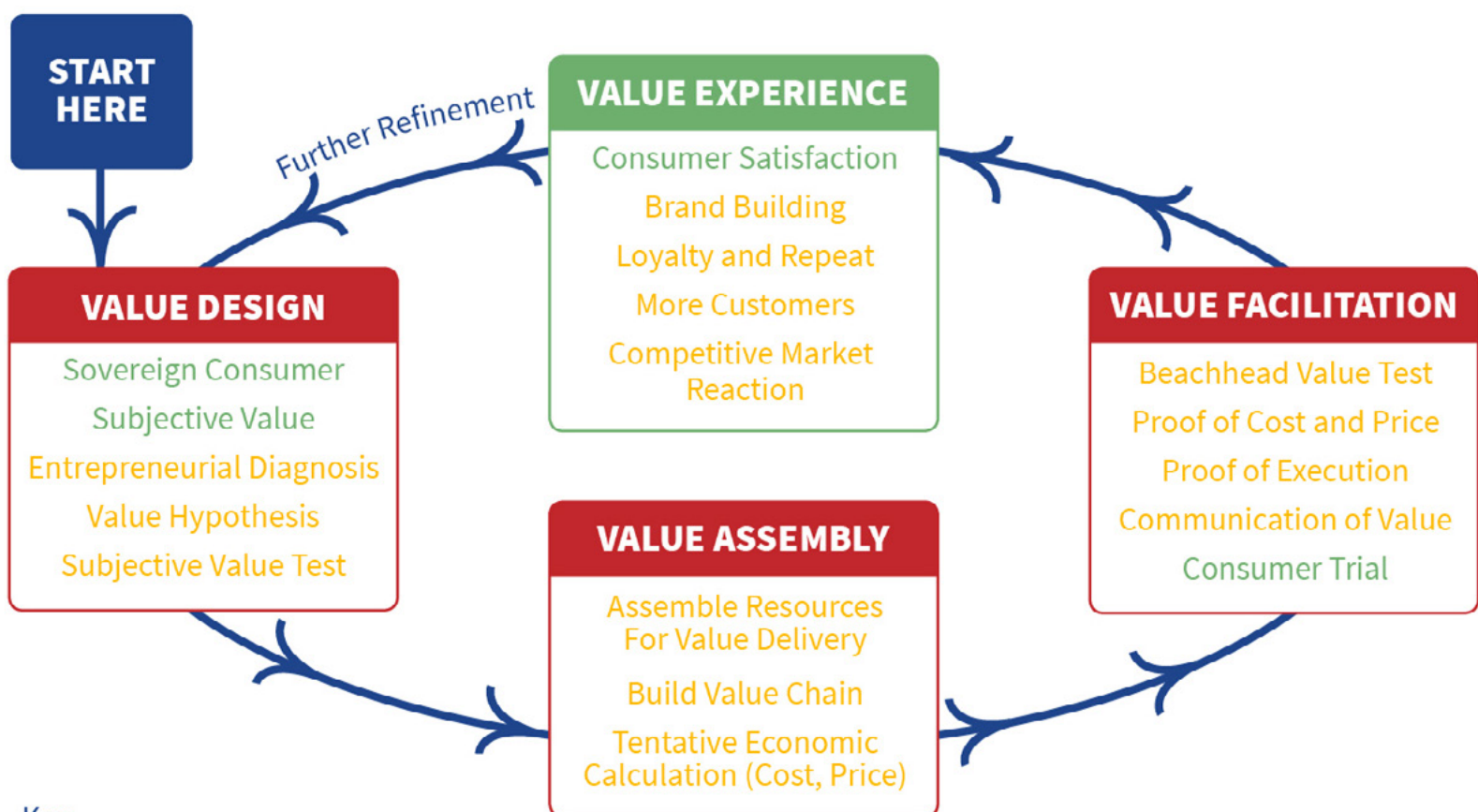
A system of value creation.

Subjective value is an important subject in economics.

It's even more important in entrepreneurship, where it is fundamental to what entrepreneurs do. It's the critical factor in entrepreneurial success.

Business schools talk about “creating value” and “value added” as if value creation were an objective process.

But it's not. And businesses can fail if they misunderstand value, because they can easily produce something for which there is no market.



Key

Green = Consumer Activities and Feelings

Red = Entrepreneur Activities

Yellow = Entrepreneurial Tools and Methods

The Subjective Value Cycle (continued)

Value is a felt experience, 100% inside the consumer's head.

Value is a satisfaction that consumers feel. It's the result of an escape from or a relief from a felt uneasiness, or felt dissatisfaction. That's often called a "consumer need" in business language, but unease or dissatisfaction are better words to describe what the consumer feels before the entrepreneur's new solution is offered. Unease and dissatisfaction are hard to articulate, they are emotional conditions, they are affected by context and circumstance, and they can be inconsistent and idiosyncratic. The consumer feels, perhaps vaguely, that life could be better, or their current circumstances could be improved. Value is the feeling the consumer experiences in the period after having consumed the entrepreneur's offering that relieves this vague feeling. They feel better – perhaps in a way that the entrepreneur never expected.

VALUE DESIGN	VALUE ASSEMBLY	VALUE FACILITATION	VALUE EXPERIENCE
<p>The consumer is sovereign – decides what has value.</p> <p>Value is subjective – a feeling, 100% in the consumer's mind.</p> <p>Entrepreneur uses empathy to deduce consumer wants and needs.</p> <p>Entrepreneur makes a diagnosis, and then a hypothesis of what will bring the consumer an experience of value.</p> <p>The hypothesis (a concept, or an MVP) can be tested for validation.</p>	<p>The entrepreneur now identifies and assembles resources to produce and deliver the good or service to bring value to the consumer.</p> <p>This is a unique new specialization – no costs or prices are given.</p> <p>The entrepreneur makes a tentative economic calculation – an estimated price and an estimated cost.</p> <p>If a profit seems possible, the entrepreneur proceeds.</p> <p>Some testing may be possible at this stage.</p>	<p>The entrepreneur takes the unique value proposition and the product / service to market.</p> <p>Ideally a beachhead market value test – the highest potential customers.</p> <p>Customers provide proof of price; implementation provides proof of cost.</p> <p>Execution proves the functioning of the value chain.</p> <p>Marketing (communicating value) is a vital element.</p> <p>Consumer trial is proof of value.</p>	<p>Consumers try the offering and experience satisfaction and therefore value.</p> <p>Entrepreneurs can communicate the story broadly and build trust in the value proposition.</p> <p>Triers repeat and become loyal; more consumers join.</p> <p>The market never stands still – both customers and competitors change.</p>
			<p>FURTHER REFINEMENT</p> <p>The process continues its cycle.</p> <p>The entrepreneur practices continuous dynamism.</p>

The Subjective Value Cycle (continued)

A system of value creation.

The consumer's perception of value can change, in unanticipated ways, and very quickly.

Take food as an example. Consumer needs are changing rapidly. There's a new unease about ingredients and methods of production.

It's not exactly clear what the consumer "wants", but their preferences are changing to include notions of holistic health and wellness, so that taste and calories and other attributes of food are less important to them.

We can't rely on consumers wanting today what they wanted yesterday. Just look at the problems big companies like Kraft-Heinz are experiencing as they try to keep up with this rapid and broad-based change in consumer preferences.

And it is even harder to predict where the consumer is going next on this journey of change.

So, if value is perceived by the consumer, what do entrepreneurs really do? Do they create value, or add value, or something else?

Per Bylund thinks of entrepreneurship as facilitating value. Entrepreneurs can't create it and can't add it. They design a value proposition based on their empathic understanding of what the consumer wants and of their sense of unease about their current circumstances, and they present this value proposition to the consumer. Then they must listen for and measure the consumer's response to find out if the consumer is experiencing value.

Production must be designed with the consumer in mind.

The consumer is the boss, and the production chain must reflect the consumer's preferences and change with their evolving tastes.

The economists refer to consumer sovereignty — the consumer determines what is value, and therefore which entrepreneurial initiatives are successful and which are not.

The Subjective Value Cycle (continued)

A system of value creation.

The successful entrepreneur designs a production chain that can deliver value. In a very real sense, the physical and financial and human capital in the production process must be a reflection of the consumer's preferences and desires. The consumer's preferences determine the capital structure.

And since the consumer's preferences are continuously changing, the successful entrepreneur practices a kind of capital dynamism that follows these changes and, to the extent possible, imagines where the consumer is headed, because production takes time and entrepreneurs are always concentrating on facilitating future value.

Advertising, marketing and communications are a fundamental part of the value proposition and not a supplemental part.

The entrepreneur must tell a persuasive story about the value the consumer will experience. Advertising and marketing are ways of communicating to the consumer that there are new alternatives available to them —

new ways to improve their circumstances and feel like life is better.

Often, the entrepreneur is a pioneer, creatively interpreting the consumer's need and developing a solution that the consumer might not have thought of on their own, but which they'll embrace when they find out about it. Sort of like the Model T the consumers got in place of the "faster horses" they asked for in the (probably apocryphal) story about Henry Ford. Advertising and marketing tell the entrepreneur's story, and they're an important and integral part of the value proposition.

This consumer-first (or customer-first) process works in B2B businesses as well.

When selling to or supplying a B2B customer, it's important to know the customer's individual preferences and needs, which are subjective — the need to feel satisfaction — in just the same way that the consumer's needs are subjective.

The Subjective Value Cycle (continued)

A system of value creation.

In fact, since the ultimate consumer determines what is valuable throughout the production chain, an entrepreneur who is knowledgeable about the B2B customer's end consumer can establish an advantage.

Being able to demonstrate:

- (1) a deep knowledge of the end-consumer's needs (especially when they are changing), and
- (2) how to bring the B2B customer's position into greater alignment with those needs, makes the vendor-entrepreneur an especially important partner.

The B2B customer will experience their own sense of satisfaction and value in the exchange.

The entrepreneur who adheres to a value-centric process has the greatest chance of success.

The entrepreneur's process of thinking must start at the consumer and work "backward" to production.

The entrepreneur must live inside the consumer's mind, and employ empathy to understand the consumer's subjective needs and wants.

From an empathic diagnosis, the entrepreneur designs a product or service and a value proposition and takes it to the consumer when it is ready.

By this time, the consumer may have changed, and so speed and agility are mandatory. It's easier said than done.

But it is critically important, especially for a new business or initiative. For established businesses, when the consumer changes, it's extremely hard to change with them.

Chapter 3:

Values As A Basis For Brand Building

The Use Of Terminal And Instrumental Values In Understanding Consumer Motivations.

Economists talk about individuals embracing values as a guidepost to the right behavior and the right choices.

An example of such a value might be Family Security. An individual who holds this value in high esteem will make certain choices about their career, for example, perhaps emphasizing stability over frequent change. Another individual who prefers an exciting life might make the choice of more change, excited by the possibilities it brings.

How can entrepreneurs diagnose and understand these idiosyncratic choices and take cognizance and advantage of them in business?



Your customer is your boss - you aim to please them.

Use the Means-Ends Chain Tool to understand the functional and emotional benefits of your offering to them.



To fit deeply into their life, try to identify the highest value for which they are striving when shopping in your category.

Values As A Basis for Brand Building

— (continued)

THE ROKEACH SYSTEM: 18 HIGHEST VALUES

Milton Rokeach was an American sociologist who wrote *The Nature Of Human Values*, reporting on his extensive research. These 18 values are the “highest” that people strive for – they define people's lives:

- | | | |
|----------------------|---------------------|-----------------------------|
| ✓ True friendship | ✓ Family security | ✓ Salvation |
| ✓ A comfortable life | ✓ Happiness | ✓ A sense of accomplishment |
| ✓ An exciting life | ✓ Equality | ✓ Mature love |
| ✓ Social recognition | ✓ Inner harmony | ✓ Freedom |
| ✓ A world at peace | ✓ National security | ✓ Wisdom |
| ✓ A world of beauty | ✓ Pleasure | ✓ Self-respect |

Rokeach also identified “instrumental” values that people adopt to achieve their highest values.

THE ROKEACH SYSTEM: 18 INSTRUMENTAL VALUES

In the Rokeach System Of Values, these are some of the most important instrumental values. Which of these values do you want to appeal to?

- | | | |
|----------------|----------------|-------------------|
| ✓ Ambitious | ✓ Forgiving | ✓ Logical |
| ✓ Broad-minded | ✓ Helpful | ✓ Loving |
| ✓ Capable | ✓ Honest | ✓ Obedient |
| ✓ Cheerful | ✓ Imaginative | ✓ Polite |
| ✓ Clean | ✓ Independent | ✓ Responsible |
| ✓ Courageous | ✓ Intellectual | ✓ Self-Controlled |

People adopt values as a guide to their behavior and a signpost for prioritizing their preferences and choices.

For example, a sense of achievement might be a value for one individual to pursue, and in as many circumstances as they feel are applicable, they'll ask themselves, “Will this choice or action bring me a sense of accomplishment?”

Values As A Basis for Brand Building

— (continued)

The Rokeach System.

There are many possible values; individuals tend to be most motivated by their “highest values”.

Entrepreneurs who can identify these highest values in their customers, and can develop an understanding of how to appeal to them, can be especially successful in designing value propositions and service offerings.

The way for entrepreneurs to understand how to appeal to consumers' highest values is to think about climbing up the values ladder to reach the top.

Their first encounter with your business will be at the bottom rung – the service or product you are offering. Their first question will be, what's the benefit for me? If they see a functional benefit, they'll ask themselves if it makes them feel good – proud, comfortable, energized, whatever feeling is relevant. If they experience an emotional benefit, they'll ask if your offering fits with their highest value – that's what makes them a devoted and loyal customer.

The tool to help your business climb the values ladder is the Means-End Chain.

We posted a simple example in Chapter #1 of this eBook.

When you've constructed a Means-Ends chain for your target customer, you can begin to populate a brand framework.

People are loyal to brands, and they often pay a premium price. A brand can be a person (you) or a business (yours) or a product or a service. In our podcast interview, Trini Amador explains how to populate the brand framework to make your brand relevant to the target audience and differentiated by making a unique promise that you keep every time.

These are the brand building tools utilized by the world's most successful brands, and we've delivered the insider's knowledge.

Chapter 4:

Empathy For Entrepreneurs

Understanding customer needs from their perspective.

Every entrepreneur has an individual skill that reinforces his or her capability to create new value in the marketplace and discover the pathway to revenue and profit.

That skill is empathy, and it's one that we can all practice and improve. It's the most important skill in entrepreneurship and it is critical to achieving the uniqueness that characterizes successful entrepreneurial offerings. Uniqueness is a characteristic of customer perception, and empathy helps entrepreneurs to define and understand others' perception.

Empathy is a human action: the action of understanding and even experiencing the feelings, thoughts and experience of another.

Entrepreneurs employ it to understand subjective needs, dissatisfaction and unease among target customers – with a view to meeting the need, resolving the dissatisfaction and ending the unease. Empathy is the first step in the innovation design process. So how do you get inside the mind of your customers? Conduct an empathic diagnosis interview using this format as an example:

General Context

As the interviewer, you provide the general context for the conversation.

Be clear about the information you're seeking.



Using **Commuting** As An Example

The topic of your interview is the experience of a daily commute to and from work.

Individual Context

Based on your questions, the interviewee explains how they relate personally to the subject.



Using **Commuting** As An Example

Ask questions that prompt the interviewee to give you answers based on their personal experience commuting to and from work on a daily basis.

Interview Questions

Below is a list of question areas to ask your interviewee.

Goals

What are you trying to achieve during this experience? Why are you trying to achieve it?

Means

How and why do you aim to achieve those goals?

Dissatisfaction

What about this experience is negative? Why is it negative?

Greatest Wish

What does your ideal version of this experience look like? Why is it ideal?

Relevant Promise

What promise can we make? Why is that promise the most important one?

Beliefs

What makes you believe that you can't achieve your goal?

Barriers

What's getting in the way? What is missing?



Using **Commuting** As An Example

Below is a list of question areas you could ask an interviewee about commuting.

Goals

What are you trying to achieve on your commute and why? To get to work on time? To spend as little money as possible? To use the time usefully?

Means

What do you do to help you achieve those goals during your commute?

Dissatisfaction

Tell me how you feel about your commute and why? What about it is negative?

Greatest Wish

How do you wish to feel about your commute?

Relevant Promise

What kind of a service might help you feel that way?

Beliefs

What do you feel is stopping you from realizing your commuting goals?

Barriers

What is actually stopping you from realizing your commuting goals?

Using Empathy for Entrepreneurial Diagnosis After Interviews

Once your interview is complete, it's time to reflect on the individual context your interviewee provided in their answers, in order to discover entrepreneurial opportunities in their experiences.

Use the prompts on the next page to help you analyze the information you recorded in the interview.

Identifying Problems

What dissatisfactions did your interviewee discuss?

What emotional pain points did they signify?

What functional failures did they signify?



Prompting Entrepreneurial Solutions

Aim to eliminate those dissatisfactions in order to deliver the ideal consumer experience.

Aim to change the consumer's feelings about their current experience.

Aim to add new features that are missing from the consumer's current experience.

What Is The Consumer's Need?

Consumer dissatisfactions are opportunities for entrepreneurs because they tell us what consumers need. What has the consumer told you they need to help remove pain points, change their feelings, or add missing features to this experience? Can you satisfy those needs?

An Effective Problem-Solution Will Improve The Consumer Experience:



Functionally

By providing new features the consumer can use during the experience.

Cognitively

By changing their beliefs about the experience and what it can be.



Emotionally

By changing their feelings during the experience.

Empathy For Entrepreneurs (continued)

Understanding customer needs from their perspective.

Empathy is the skill that enables the design of new products, new services, new systems and new solutions.

If the entrepreneur has exercised empathy well, the chances of success in the design process are high for the customer to say, "Yes! That's what I need!" Is empathy a difficult skill to master? Not really. We all have it to some degree. It needs to be applied with a combination of subtlety and discipline.

Empathy is a skill we learn from childhood.

We're taught as kids, when we say or do something that might be unkind or upsetting to another person, to "think about how they must feel". The vernacular is to "walk in their shoes". It's the same essential skill we apply as entrepreneurs.

Entrepreneurs need to master the skill for an audience that might not be in their social circle and with whom they may not be familiar.

You may be selling to car buyers, or cooking enthusiasts, or sports fans, or the procurement officer at

at a client. This kind of empathy is a little bit less natural and a little bit more learned.

It is entirely possible to learn entrepreneurial empathy and to get better at it.

You can develop a process of reading and gathering data about the category or market you're operating in, talking to actual and potential customers, conducting quantitative or qualitative surveys (like focus groups), analyzing the sentiments in social media conversations, or just talking to folks with a viewpoint.

You can hire a consultant or an employee with highly developed customer empathy skills. But always, it's your interpretation of the data that's the key.

What is motivating the customer, what is driving them, what is the feeling that's at work?

Empathy For Entrepreneurs (continued)

Understanding customer needs from their perspective.

There are plenty of tools.

There are market research tools, analytical tools, and all kinds of methods you can use. Learn them on YouTube or an online course. Or use our Entrepreneurial Diagnosis Tool: the Contextual In-Depth Interview.

Think of yourself as a Doctor, performing a diagnosis.

Often the patient can describe symptoms, but does not know the underlying cause, and certainly doesn't know the cure. The doctor asks questions, performs some pattern recognition based on existing knowledge, and perhaps performs some tests to narrow down the possibilities. In the end, the doctor arrives at the diagnosis and the prescription based on skill.

The Doctor analogy extends even further to the cure you are trying to deliver to the customer.

Your target customer is not so much looking for something new as they are seeking to solve some dissatisfaction.

There is some feeling on their part – a little vague, perhaps, not too well articulated, but nevertheless genuinely felt – that something in their life could be better. Ludwig von Mises called it “felt uneasiness”, which is a wonderfully descriptive expression. As an entrepreneur, you are taking away an uneasiness. The result is a better feeling on the customer's part – an end to that uneasiness.

This is what entrepreneurs do in a free market economy of mutually voluntary exchange.

We persuade customers that they will feel better, be better off, experience more enjoyment, if they buy the product or service we are offering to them.

They can be confident of that future feeling because of the empathy the entrepreneur has exercised in developing an understanding of them, their dissatisfactions and their unique individual preferences.

The entrepreneurial system is best for everyone because it's based on empathy.

Chapter 5:

Your Customer's Opportunity Cost

The entrepreneur must train themselves to see opportunity costs in the way the consumer sees them.

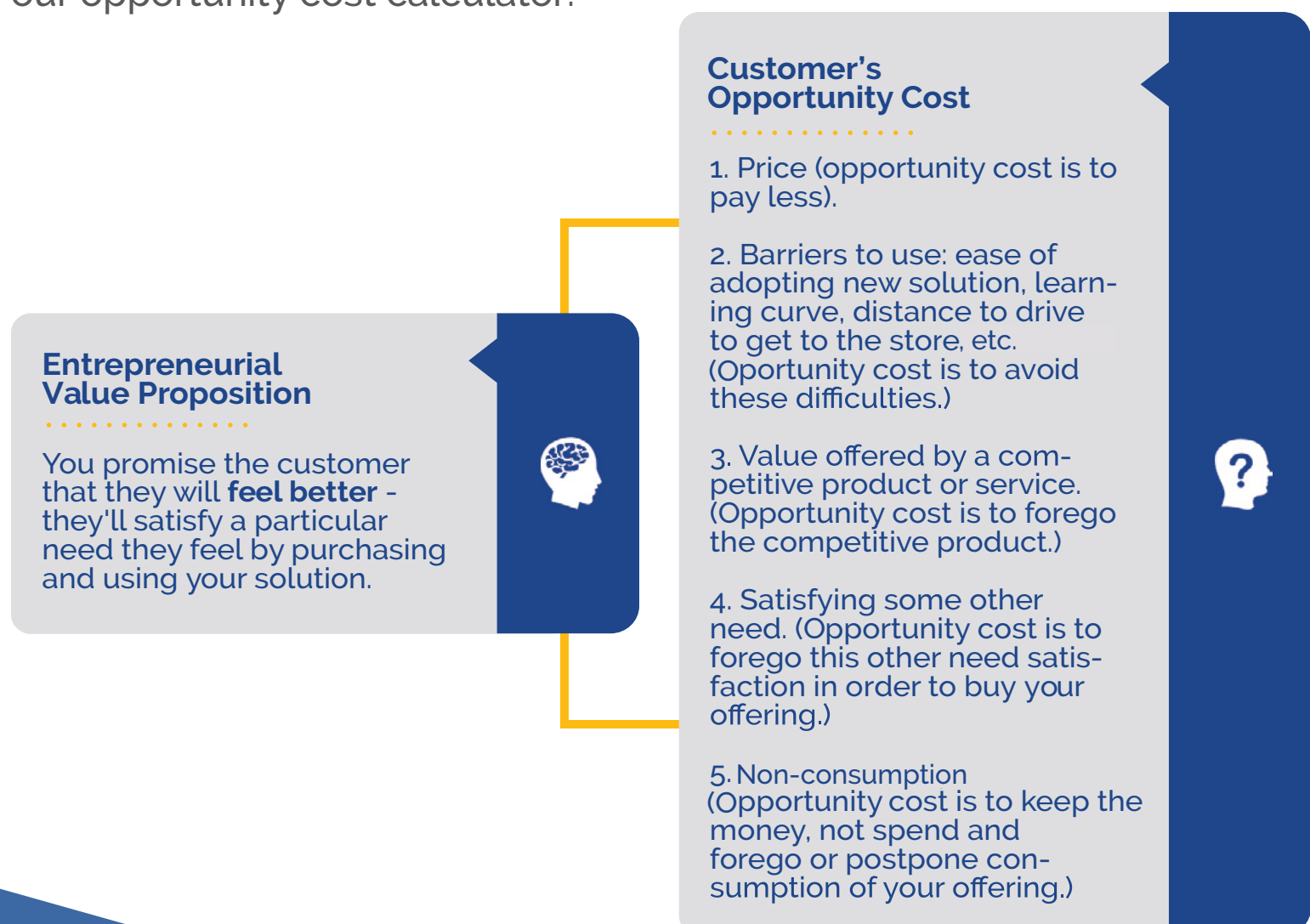
As an entrepreneur, you are not in competition with other entrepreneurs.

You are competing with your customer's subjective preferences. Opportunity cost is what the customer gives up in order to purchase your offering. Is that a direct substitute? An indirect substitute? Or a different use of the same dollars? ("Does she buy the dress or buy the handbag?").

Or, quite possibly, non-purchase or savings. Understanding your customer's opportunity cost is an important part of making a sale.

How are you facilitating value for your customers?

A consumer or customer thinks about opportunity cost when considering your entrepreneurial offering. To help you understand their thinking, use our opportunity cost calculator:



Your Customer's Opportunity Cost (continued)

The entrepreneur must train themselves to see opportunity costs in the way the consumer sees them.

Opportunity cost is the fundamental trade-off.

The value of any action or choice is defined by the value of what I am foregoing — of what I can't do as a result of choosing. If I decide to make my product out of stainless steel, I can't also make it out of aluminum. The value I create by choosing stainless steel must be greater than the value I gave up by not choosing aluminum.

We calculate opportunity cost as the NPV of different alternatives.

The NPV of the second best choice is the opportunity cost of the first.

The entrepreneur must understand the mind of the consumer in order to see opportunity costs in the way the consumer sees them.

Opportunity cost is a subjective evaluation on the consumer's part. How do they look at alternatives when they are considering the entrepreneur's offer? Would they assign greater value to the aluminum product compared to the stainless steel product?

An entrepreneur needs to be able to answer that question in order to calculate how to design a good deal in the consumer's eyes.

The way to do this is to solve an equation: consumer value = the value of what I am offering minus the customer's perceived opportunity cost of acquiring it.

We must understand what is the first alternative for the consumer (including doing nothing — not buying). That's one part of the consumer's opportunity cost. Second, what are the additional opportunity costs of buying — such as the difficulty of getting to the store to buy the product, or the difficulty of ascending the learning curve to use an app. This is the second component of opportunity cost for the consumer — the alternative is not to have to face these costs and may be preferable.

Your Customer's Opportunity Cost (continued)

The entrepreneur must train themselves to see opportunity costs in the way the consumer sees them.

It's possible to segment consumers by understanding their attitudes to opportunity costs.

Book buyers on amazon prefer the low cost and fast delivery. Their opportunity cost is going to the book store, where there is a limited selection and prices are higher.

Book buyers who go to the brick and mortar store prefer mingling with other book buyers and perhaps getting a cup of coffee — experiences that are unavailable on amazon.

For these consumers, the opportunity cost of foregoing such experiences on amazon is high — so high that it makes Amazon's low price unattractive. These attitudes are held by different kinds of book buyers.

The entrepreneur's first opportunity cost is the value of choosing another career, such as a corporate job.

Many entrepreneurs could make more money — and do so with more continuity and

security — as a corporate employee. That's the opportunity cost.

But it may not compensate for the excitement and fulfillment of doing what you love as an entrepreneur. Be sure to calculate the opportunity costs carefully!

Once you're an entrepreneur, every decision is a trade-off, and calculating opportunity cost is an everyday task it's important to master.

Every resource allocation decision is an opportunity cost decision. How much should I spend on product development, if that means less money for marketing and sales? Whom should I hire versus what tasks should I out-source?

Once the decision is made the opportunity cost is locked in. This is especially critical for small and start-up businesses with limited resources and tough cash flow constraints.

Always think in terms of opportunity costs when making decisions: what's the alternative?

Your Customer's Opportunity Cost (continued)

The entrepreneur must train themselves to see opportunity costs in the way the consumer sees them.

The allocation of time is often the most important opportunity cost of all.

A classic example is engineering time spent perfecting the product versus getting a just-about-good-enough product to the consumer for evaluation and feedback.

The engineering trade-off is that the product is not the best it can be. More time would help. The business trade-off is that customer feedback is the most important resource of all, especially negative feedback which tells you how to improve.

Delaying it could be fatal. The entrepreneur must weigh these two alternative uses of time. That's how the concept of the MVP (minimum viable product) and agile programming emerged.

They're both ways to make the best trade-offs of time allocated to the most important tasks.

The entrepreneur must always be thinking of trade-offs.

What am I losing or foregoing by making this choice? That's the opportunity cost. Calculate it, estimate it and put a value on it. Focus on what you are not doing in order to choose the right thing to do.

Use our Opportunity Cost Calculator Tool at the beginning of this chapter to help you understand the opportunity cost decisions your prospective customers might encounter.

How To Use The Customer Journey Map For Your Business

Visit e4epod.com/journey-map to download our journey map template.

This technique decomposes a customer's purchase and usage of a service into a series of stages, and asks the question, "What is the customer doing, thinking, experiencing and feeling at each stage?"

This is sound Austrian economics. It starts with human action – what is the observed behavior? Then, it asks about motivation (why did they act?). Finally, it examines the consequences of the action – customer experience - and tries to probe the emotional benefit, defined as feeling.

The process enables the kind of negative feedback that is most useful in the service improvement process. What if the experience is below expectations, or is less liked than the one delivered by a competitor? What if the customer's feeling is disappointment or frustration? All of these challenges can be addressed if the data is available.

Apply this technique to gain insights about your customers.

The Rail Europe Experience Map example is well-known in marketing circles and is widely available on the internet. It's a good example of the process.

Step 1: Do this for your business by breaking down the customer journey stages across the top horizontal axis of the map.

Step 2: On the vertical axis, map out what the customer is doing, thinking, feeling and experiencing at every stage (as well as what your service is doing, or presenting to the customer at that stage).

Step 3: Fill in the blank boxes at the intersections of the horizontal stages and vertical activities with research or intuition.

Step 4: Label a section called "Opportunities" for ways to improve.

Visit e4epod.com for more:

Economics For Entrepreneurs is a project of the Mises Institute, to demonstrate how the application of economic principles helps entrepreneurs succeed.



Weekly Podcast

30-to-60 minute interviews on highly specific topics.



Expert Guest Speakers

Our guest roster alternates professors of economics with real-life entrepreneurs and small business owners.



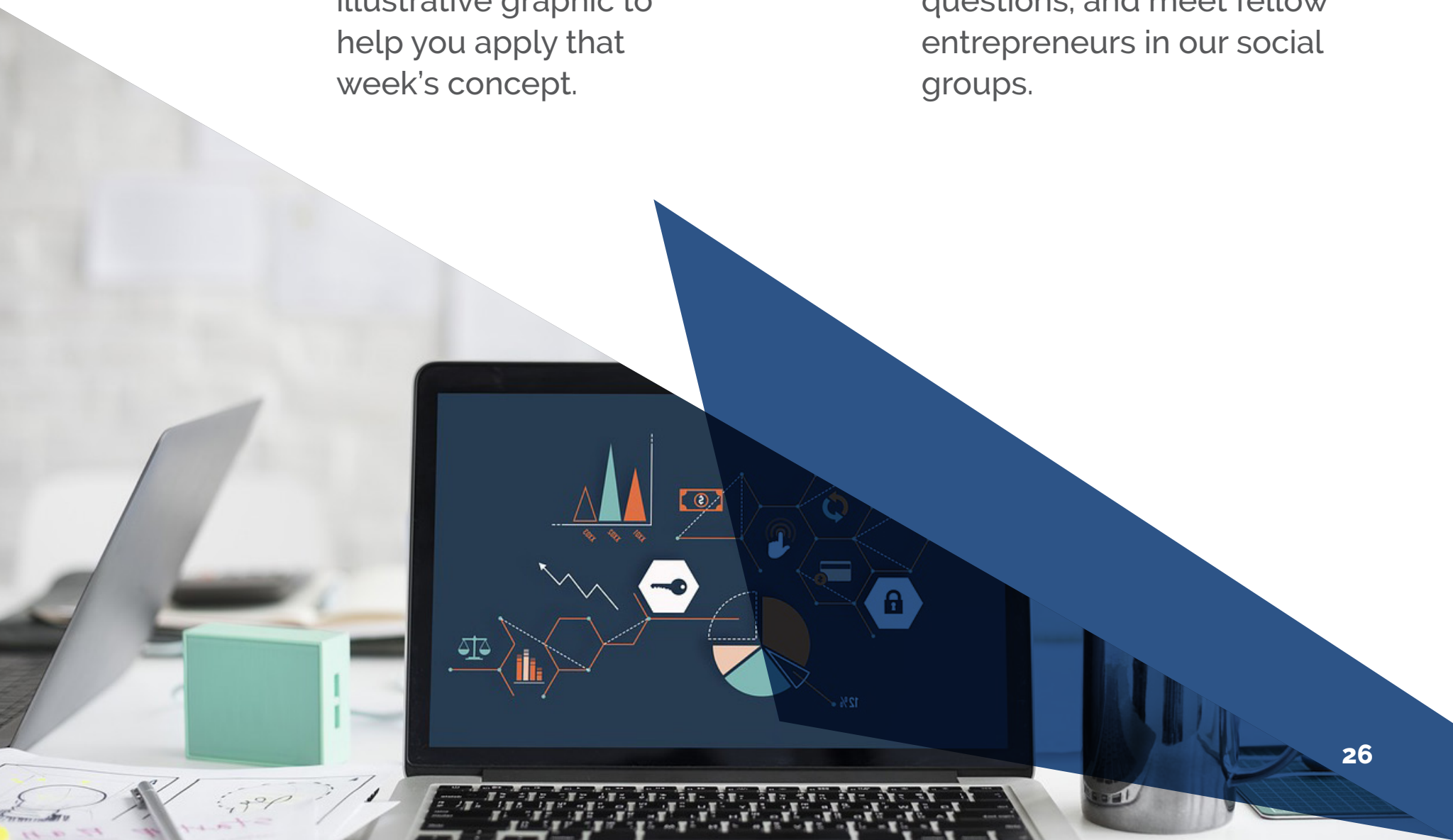
Free Business Tools

Each weekly episode offers a free tool or illustrative graphic to help you apply that week's concept.



LinkedIn & Facebook Groups

Connect and share with our expert guest speakers, ask questions, and meet fellow entrepreneurs in our social groups.





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