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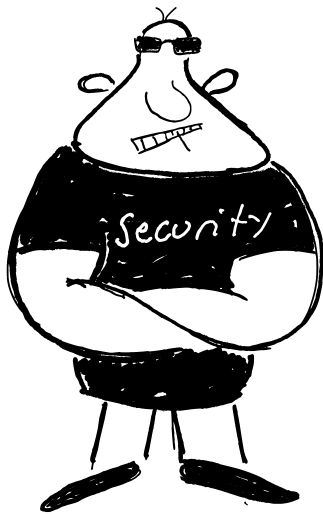
**5-HOUR
ENERGY**

EPISODE 3
BY

ROBERT EDEN



VIP ONLY



Introduction

I doubt there are many industries as heavily competed as the beverage industry. Big established brands like Coca Cola, Red Bull, Pepsi, Anheuser-Busch etc. have the drinks aisles and displays in supermarkets stitched up and guarded like Fort Knox. How is a newcomer to enter? The answer: through the back door like 5-hour Energy with its 2 oz energy shot.

The front door

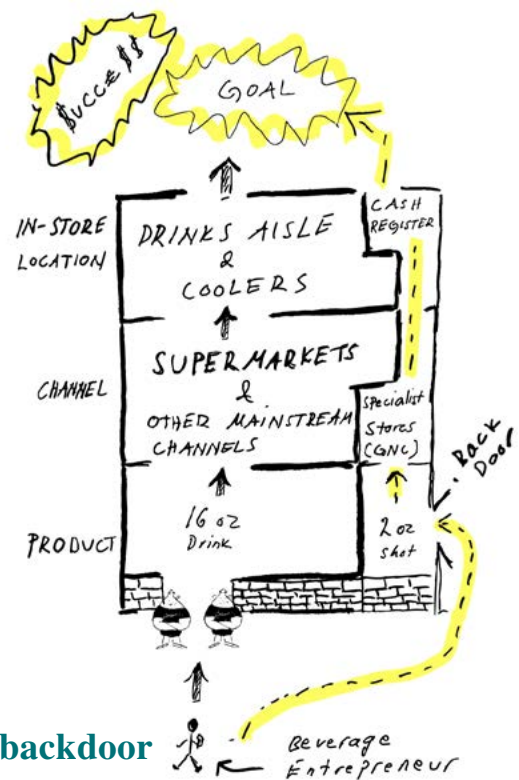
I found this case example in Guy Raz's podcast series "how I build this". What caught my attention was firstly the fact that 5-hour Energy was able to break into an industry as heavily competed as the beverage industry, but more importantly, it was the concept of the "front door vs. backdoor" that got me thinking and seeing patterns.

The drinks aisles and coolers in supermarkets are prime real estate. The profitability of every inch is closely monitored, and the law of the jungle prevails; the strong eat the weak. This is the front door. It represents the current market "rule book", played within the generally accepted industry boundaries.

5-hour Energy

When Manoj Barghava, the founder of 5-hour Energy, first started to think about establishing a drinks company, he was not thinking about rule books or drinks aisles. Instead, he had noticed how being tired and being thirsty was not one and the same thing. It made no sense to him to have to drink large quantities of liquid (16 oz) to get an energy boost.

He set out to create an energy drink with a new value proposition. He put it all in a smaller but more potent form and called his product an "energy delivery system" rather than an energy drink. What resulted was a 2 oz shot and the birth of the "energy shot" industry.



The backdoor

The unusual 2 oz bottle size and the new value proposition as a shot instead of a drink led 5-hour Energy to the backdoor of the drinks industry. Firstly, instead of going to the large supermarkets such as Walmart, Manoj Barghava pitched the new shot to vitamin stores like GNC, who as it turned out are always looking for new products that are not yet in the mainstream.

Secondly, instead of being placed in the drink's aisles like its competitors, due to its unusual small size, it got situated at the cash registers where it did incredibly well. The product soon found a loyal following with fitness enthusiasts, and then later with truck drivers, nurses, doctors, and other people who worked long hours. Now, the product is sold just about everywhere, and can firmly be called as "mainstream".

Pattern spotting

1. The Opportunity Space.

At the heart of finding the “backdoor” is the ability to see things differently (opportunity type 3). By critically examining what the assumptions underlying the “front door” are, you can see it’s flip side – what it is not. In this case the critical assumption was that energy drinks are beverages, and beverages are of a certain size.

5-hour Energy however did not meet this criterion - it was too small - and so alternative routes to market and in-store placing became available. Finding the backdoor is not however the end of the story. You also need a good product. 5-Hour Energy got what it needed by creating a shot that did what it promised, people liked, and got the customer “job” of staying alert and focused for long periods of time done radically better than the competition (opportunity type 2).

5-Hour Energy sources of opportunities

1
Competitor oversight

2
Smart move

3
Seeing things differently

4
Change in environment

Opportunity type 3

- Finding a backdoor into the energy drink market by the creation of an energy shot

Opportunity type 1

Creating a totally new type of product that:

- Does what it promises
- People like
- Performs a “job” that customers have

Business Model

Resource Castles: Brand castle
(Source: Strategyer)

A new type of product that doesn’t compete directly with current market offering. Use this to enter the market through the “backdoor” and establish dominance.

Description

Use a strong brand to outcompete others. Focus on value propositions in which a strong brand is an essential component

Core nodes:

- Key Resources: strong brand
- Key Activities: marketing & branding
- Value Proposition: high added value to customers through brand centric product

NUMBER	NAME & (SOURCE)	DESCRIPTION	EXAMPLE	CORE NODES
21	BRAND CASTLES (Strategyer)	Use a strong brand to outcompete others. Focus on value propositions in which a strong brand is an essential component	Brand Castle	1. Key Resources 2. Key Activities 3. Value Proposition
24	ACTIVITY DIFFERENTIATION (Strategyer)	Identify activities that create the activity and differentiate your business from competitors. Focus on value propositions in which a strong brand is an essential component	Delta	1. Key Resources 2. Key Activities 3. Value Proposition
48	GO HOME TO ADDRESS (McAfee)	Link between your special offering and address where your customers are likely to get one	UPS	1. Value Proposition 2. Key Resources 3. Key Activities
54	WEEKDAY RESTAURANT (McDonald's)	Compared to other types of dining, McDonald's is a fast-food restaurant that serves a limited menu of food and beverages. The company has a strong brand and a focus on value propositions in which a strong brand is an essential component	McDonald's	1. Key Resources 2. Key Activities 3. Value Proposition

2.The Business Model.

Initially the business model was in no way special or a significant source of competitive advantage. The company manufactured its drink, bottled, and distributed it like any other beverage manufacturer. It was only after the company became a success that a more strategic and recognizable business model pattern emerged: **Brand Castle**.

Soon after 5-hour Energy became a success, Coca Cola and others tried to get in on the action by launching their own 2 oz energy shots. 5-hour Energy however defended its turf very successfully and it still holds to this day about 90% of the US energy shot market.

They key resource behind this minor miracle is the brand. As Manoj Barhgava said in the “How I built this” podcast interview; “we are like WD40”, meaning that the brand name has already entered the English language and stands for the entire product category. The company also defended its market position through lawsuits and copyright claims etc., so their business model pattern has elements from another resources-based pattern called IP Castles.

Conclusion

The focus in this episode has intentionally been on the Opportunity Space and on the concept of the “back-door”. This is because it is a recognizable strategic pattern behind some of the most powerful success stories. For example, Microsoft in its early years used the backdoor to enter the computer business. IBM who dominated the industry considered hardware to be the core of the business (the front door) and thought of software as an unimportant side-show. Similarly, the

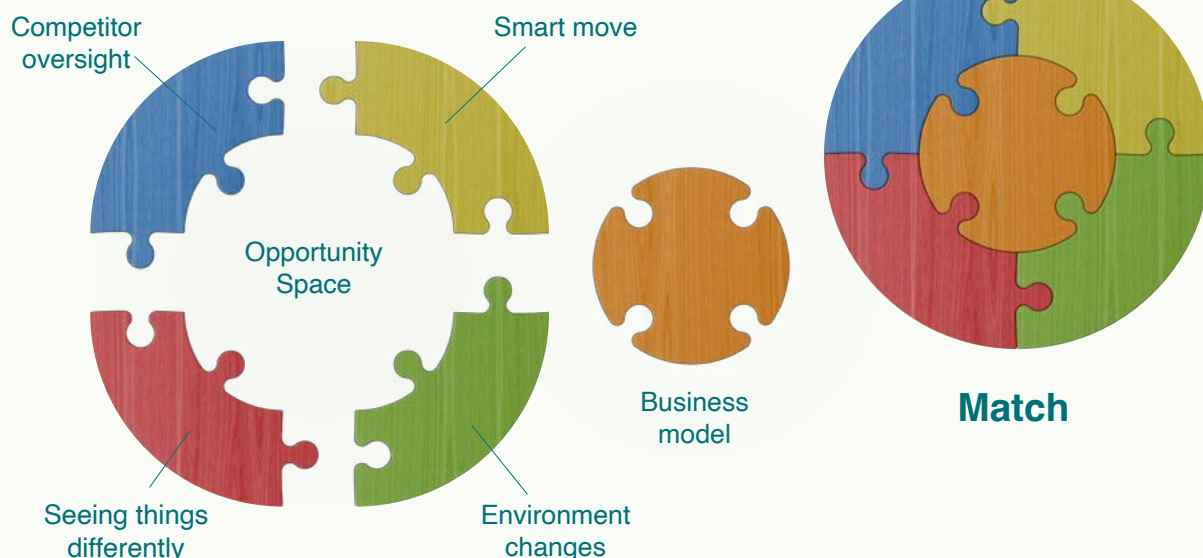
Japanese automakers entered the US market with cars the American automakers didn’t consider as competition. It is an incredibly useful pattern to be able to play, so the next time you are planning your go-to-market strategy, don’t try entering through the front door. Try looking for the backdoor instead.

The next episode (Technique Special):

180 ° Segmentation – Uncovering customer segments you didn’t know existed. Follow me on LinkedIn or on Substack to make sure you don’t miss out.

The winning move

Opportunity vs. Business Model - Fit



Business models and opportunity spaces are recognizable patterns the same way a chess pattern such as the Sicilian Defense opening is. Equally, just as each chess pattern has its time and place for using it, each business model is best suited for different types of opportunity spaces. The more business models and opportunity spaces you recognize, the closer you are to becoming the Beth Harmon of your industry.



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